

**Viability Study for the Continuation of the
Upper San Diego River Improvement Project**

Prepared for:

Redevelopment Agency of the County of San Diego
5201 Ruffin Road, Suite B
San Diego, California 92123

Prepared by:

Keyser Marston Associates, Inc.
500 South Grand Avenue, Suite 1480
Los Angeles, California 90071

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PART 1 – REVIEW OF PROJECT AREA FINANCIAL VIABILITY

I. Introduction

The Upper San Diego River Improvement Project (the Project Area) was established by the San Diego County Redevelopment Agency on July 18, 1989, for the purpose of eliminating blighting conditions, creating employment opportunities and encouraging private sector investment and development opportunities in the area. The Project Area is 529 acres and is located along both sides of the San Diego River and Highway 67 in the community of Lakeside.

Keyser Marston Associates, Inc. (KMA) has been retained by the Redevelopment Agency to prepare a comparative financial feasibility projection related to future expenditures and potential financing sources with and without the Project Area. Changes in market conditions and perceived changes in the political climate of the Lakeside community have resulted in the Redevelopment Agency's desire to analyze, from a financial perspective, the necessity of having the Redevelopment Plan remain effective.

The California Community Redevelopment Law does not contain specific procedures for the early termination of a redevelopment plan, but does contain procedures for amending a redevelopment plan. The early termination of a redevelopment plan is akin to an amendment shortening the life of the plan.

The conditions precedent to such termination include findings that the Project Area has no outstanding bonded indebtedness, no other unpaid loans, indebtedness, or advances, and no legally binding contractual obligations with persons or entities other than the County, unless the County assumes the bonded indebtedness, unpaid loans, indebtedness, and advances, and legally binding contractual obligations. Under Health and Safety Code Section 33333.8, the Redevelopment Plan cannot be terminated if the Redevelopment Agency has not complied with its obligations pertaining to replacement housing (Section 33413(a)), inclusionary housing (Section 33413(b)), or excess surplus housing funds (Section 33334.12).

The work scope provided by KMA included the following:

1. Review of the existing Redevelopment Plan limitations.
2. Review of the Agency's Implementation Plan and assessment of stated goals and objectives of the Project Area.
3. Comparative analysis of Project Area annual tax increment vis-à-vis senior lien obligations over the remaining life of the Project Area.

4. Comparative analysis of future cumulative tax increment revenues vis-à-vis tax increment dollar limitations for the Project Area.
5. Recommendations as to Redevelopment Plan amendments increasing any existing dollar limits or extending any existing time limits.
6. Review of housing set aside expenditures and obligations.
7. Preparation of a financial feasibility cash flow based upon anticipated expenditures and a projection of potential financing sources of one set of assumptions.
8. Submittal of a report of recommendations for the future viability of the Project Area.

II. Review of Redevelopment Plan Limits

The Redevelopment Plan for the Project Area was adopted on July 18, 1989 by Ordinance Number 7652. The Redevelopment Plan was subsequently amended on March 17, 1995, by Ordinance Number 8508 to bring the Plan into conformity with technical limitations set forth by the passage of AB 1290.

As a result of the latter amendment, the Redevelopment Plan is now governed by the following time limitations:

- A time limit on the establishing of loans, advances and indebtedness shall not exceed 20 years from the adoption of the Redevelopment Plan, which is July 18, 2009.
- A time limit, not-to-exceed 40 years from the adoption of the Redevelopment Plan on the effectiveness of the Plan, which is July 18, 2029.
- A time limit, not-to-exceed 50 years from the adoption of the Redevelopment Plan to repay indebtedness, which is July 18, 2039.
- No eminent domain proceeding to acquire property within the Project Area shall be commenced after 12 years from the adoption of the Redevelopment Plan, which was July 18, 2001.

In addition to the time limitations, the Redevelopment Plan imposes the following dollar limitations:

- The number of dollars that may be divided and allocated to the Agency pursuant to Health and Safety Code Section 33670, shall not exceed \$300,000,000, adjusted annually in accordance with the Consumer Price Index for San Diego. This limitation is exclusive of payments to taxing agencies and funds deposited in the Redevelopment Agency's Low and Moderate Income Housing Fund.
- The amount of bonded indebtedness, to be repaid in whole or in part from such allocation of taxes, which can be outstanding at one time shall not exceed \$100,000,000 adjusted annually in accordance with the Consumer Price Index.

III. Implementation Plan Review

The Redevelopment Agency has prepared a draft Five-Year Implementation Plan pursuant to the requirements set for by Health and Safety Code Section 33490 for the period between FY 2004-05 and 2008-09. The draft was prepared in order to satisfy State Controller filing requirements and may be subject to amendment as a result of actions taken by the Redevelopment Agency to continue or to dissolve the Project Area. The draft Implementation Plan clearly states that the Redevelopment Agency is assessing the viability of continuing with the Project Area.

According to the draft Implementation Plan, the Project Area is characterized by properties which suffer from economic dislocation, deterioration, and/or disuse because of one or more of the following factors:

- Lots are of irregular form and shape and inadequate size for proper usefulness and development under current zoning.
- Lots have been laid out with disregard to the existing alignment of the San Diego River.
- Inadequate public improvements, such as flood control structures, streets, traffic circulation, sewers, curbs, gutters, fire protection facilities, and/or water service, which cannot be remedied by private or governmental action without redevelopment.
- A prevalence of depreciated land values, impaired investments, and economic maladjustment.

A number of ambitious goals and objectives are mentioned in the draft Implementation Plan to address blight, encourage public participation and cooperation, install flood control improvements, develop habitat reclamation, provide community enhancement improvements and provide affordable housing opportunities to the community. The draft Implementation Plan notes that the goals and objectives are expected to require on-going effort throughout the life of the redevelopment project. The proposed programs that could be implemented to accomplish the goals and objectives are grouped into five general activities: reuse of vacant and underutilized properties; financing; housing; public services and facilities; and project management and assessment.

As shown by the tax increment revenue projection and the cash flow projection for the Project Area, there could be sufficient funding of the proposed programs if the Redevelopment Agency decides to continue the effectiveness of the Redevelopment Plan, and demonstrates an intentional commitment to provide staffing resources to allow such programs to be implemented.

The draft Implementation Plan is sufficient to serve as the blueprint for moving forward, but will require that County staff continues to receive input from community share holders as to how the priority of funding is to occur. In FY 2005-06, there were no tax increment revenues allocated from the Project Area to implement any of the proposed programs due to a surplus of available revenues reported in the Statement of Indebtedness filed for the same year. It is likely that the same will be true in the current FY 2006-07, and therefore critical that additional indebtedness secured by tax increment from the Project Area be incurred in the current fiscal year should the Redevelopment Agency decide to continue with the Project Area.

IV. Comparative Analysis of Tax Revenues

Historic Valuation Growth

Property tax revenues in excess of the amount resulting from the valuation shown on the assessment roll for the base year of the Project Area is referred to as tax increment. The base year for the Project Area represents the fiscal year in which taxable property was last equalized prior to the effective date of the ordinance approving the Redevelopment Plan.

Table 1 presents a five-year historic perspective on the Project Area's assessed valuation growth vis-à-vis the actual tax increment revenue allocation to the Redevelopment Agency. Assessed values and revenue disbursements reflect reported amounts published by the County Auditor-Controller.

Over the period from FY 2002-03 to the current FY 2006-07, total Project Area values reported by the County Assessor have increased 37%. On an annual average basis, this represents a 10.84% average annual increase of locally assessed secured values and a 6.4% average annual increase of unsecured assessed values.

Historic Tax Increment Revenue Allocation

A review of the year-end County Auditor-Controller allocation summaries reveals a different historic trend. Tax increment revenue allocations over the same period do not reflect the increases in Project Area assessed values, and instead, have declined as a direct result of insufficient reporting of any outstanding Project Area indebtedness in the annual Statement of Indebtedness.

Table 1 historically compares the County Auditor-Controller's beginning-of-year estimate of tax increment disbursement and the end-of-year actual disbursement. In FY 2002-03 and FY 2003-04, sufficient outstanding indebtedness was reported on the annual Statement of Indebtedness, resulting in a full allocation of tax increment revenues generated by the Project Area. However, commencing in FY 2004-05, the County Auditor-Controller disbursed tax increment to the Redevelopment Agency only up to the amount of claimed indebtedness.

Tax Increment Revenue Projections

Under an immediate dissolution scenario summarized on Table 2, the cumulative amount of future tax increment revenues the Redevelopment Agency would forfeit over \$80 million if the dissolution were to occur immediately, representing \$29.4 million in current dollars. Under a scenario where the Project Area is dissolved, the forfeiture of tax increment revenues would be

allocated to the respective taxing agencies as property tax revenues and is summarized on Table 2.

Table 3.1 represents the long-term projection of property taxes if there were no Project Area. The allocations to the respective taxing agencies are presented on Table 3.3. It is important to note that under a dissolution scenario, a portion of the tax increment revenue would likely be required to service outstanding indebtedness obligations of the Redevelopment Agency. Since the only outstanding obligations identified are those from County General Fund loans, it is also possible that such principal can be funded from the amount of property tax dollars allocated to the County General Fund under this scenario.

Table 4.1 represents the long-term projection of tax increment revenue for the Project Area (referred to as the Status Quo scenario). The following assumptions were incorporated in this tax increment revenue projection:

1. FY 2006-07 Project Area values provide the basis from which future year tax increment is determined, as reported by the San Diego County Auditor Controller.
2. Subsequent year Real Property values (land and improvement values) are assumed to escalate 2% per year to reflect the Proposition 13 inflationary increases and increase as a result of assumed new development activities already underway in the Project Area.
3. Personal Property values are not subject to the Proposition 13 inflationary increase and are projected to only increase as a result of assumed new development activities already underway in the Project Area.
4. At the present time, the Lakeside Land Company is developing a major industrial park and has completed approximately 209,000 square feet of the planned 1.4 million square feet of industrial park space. Based upon conversations with the developer and research of local news articles, the final plans and approvals for the development of the balance of the site will be completed within the coming year and development will continue in phases over a 10-year period of time. KMA has projected that the new value added from this project will be absorbed at a rate of approximately 104,000 square feet per year. No other developments have been identified which are as far along as this project nor are of this magnitude.
5. Twenty percent of gross annual tax increment revenues are deposited into the Redevelopment Agency's Low and Moderate Income Housing Fund.

6. Pass-through payments pursuant to Health and Safety Code Section 33401 are made to the Grossmont Union High School District, the Lakeside Union School District and the County Office of Education based upon formulas incorporated in the respective tax sharing agreements entered into between the Redevelopment Agency and each school district.
7. Resolutions passed by affected taxing agencies electing to receive property tax allocations pursuant to Health and Safety Code Section 33676 were adopted by the Grossmont Cuyamaca Community College District and the Metropolitan Water District of Southern California. Based upon allocation payments identified by the County Auditor-Controller, subsequent year allocations are based upon a subsequent year 2% inflationary increase.
8. The projection assumes that prior to July 18, 2009, the Agency will pass a summary ordinance, as authorized under SB 211, to eliminate this debt incurrence time limit and subsequently debit statutory pass-through payments to qualifying affected taxing agencies, as set forth under Health and Safety Code Section 33607.7(b)(2). Refer to Section V for a detailed summary of the SB 211 election.
9. For FY 2005-06 and assumed for FY 2006-07, the Statement of Indebtedness filed by the Redevelopment Agency reflected a surplus of available revenues, resulting in no allocations of tax increment revenues to the Redevelopment Agency. Commencing in FY 2007-08, the projection shown on Table 4.1 assumes that the Redevelopment Agency will annually report new indebtedness sufficiently large to qualify for all of the annual tax increment revenues the Project Area is entitled to receive.

Health and Safety Code Section 33670 provides that property tax revenues generated by the Base Year value of the Project Area are to be allocated to the respective taxing agencies. Based upon KMA's determination of the general tax levy distribution to the taxing agencies, plus the tax sharing allocations for taxing entities that entered into pass-through agreements and statutory pass-through allocations assumed to be triggered under an SB 211 summary ordinance to eliminate the debt incurrence time limit, an annual projection of tax revenues by taxing agency was created and shown on Table 4.3.

These tax increment revenue projections reflect KMA's understanding of the assessment and tax apportionment procedures employed by the County. The County procedures are subject to change as a reflection of policy revisions or legislative mandate. While we believe our estimates to be reasonable, taxable values resulting from actual appraisals may vary from the amounts assumed in the projections. Assumptions have also been made that legislatively-mandated payments to the State will not be required in future fiscal years. These assumptions reflect existing State policies and are subject to future legislative changes.

No assurances are provided by KMA as to the certainty of the projected tax increment revenues projected herein. Actual revenues may be higher or lower than what has been projected and are subject to valuation changes resulting from new developments or transfers of ownership not specifically identified herein, actual resolution of outstanding appeals, future filing of appeals, the non-payment of taxes due, and the Agency's annual reporting of indebtedness sufficient to qualify for the tax increment revenues projected.

Petition to Reduce Base Year Value

The Project Area's base assessment roll utilized for the determination of tax increment revenues can be reduced by the taxable value, as shown on the base year property tax roll, of those properties acquired for permanent public uses by tax-exempt public entities. The precedent for this action stems from the case of *Redevelopment Agency of the City of Sacramento v. Malaki*, 216 Cal.App.2d 480, and subsequent related cases.

According to conversations with staff of the County Auditor-Controller, the Redevelopment Agency must formally request that the Project Area base year be adjusted to exclude the qualifying parcels. Real property acquired and to be acquired by the San Diego River Conservancy may qualify for the base year exclusion if the County determines that the San Diego River Conservancy is a public agency of the State, then the Redevelopment Agency may petition for a base year adjustment and provide the County Assessor and Auditor-Controller with the necessary parcel information.

Table 1

**Historic Project Area Assessed Values and Disbursements
Upper San Diego River Redevelopment Project
County of San Diego Redevelopment Agency**

	2002-03	2003-04	2004-05	2005-06	2006-07	Avg Annual % Chg
I. REPORTED VALUE						
Secured	73,384,873	77,661,974	94,270,665	100,607,206	105,199,051	10.84%
Unsecured	40,242,326	46,130,762	55,162,773	42,498,879	50,551,241	6.40%
Total Project Value	113,627,199	123,792,736	149,433,438	143,106,085	155,750,292	9.27%
Less Base Year		8.95%	20.71%	-4.23%	8.84%	
Incremental Value	17,526,777	17,526,777	17,526,777	17,526,777	17,526,777	
	96,100,422	106,265,959	131,906,661	125,579,308	138,223,515	
II. PROJECTED DISBURSEMENT:						
TI Revenue Disbursement Estimate	971,090	1,070,833	1,326,391	1,261,631		
III. ACTUAL DISBURSEMENT:						
TI Revenue Disbursement	989,965	1,124,710	675,080	0		
Interest	1,745	1,232	608	0		
Processing Fees	(9,887)	(10,312)	(13,526)	0		
Total Annual Disbursement	991,823	1,115,630	662,162	0		
IV. NET GAIN or (LOSS) TO AGENCY	20,733	44,797	(664,229)	(1,261,631)		

Note: The Projected Disbursement of annual tax increment revenues are estimated annually by the County Auditor. This amount reflects the potential amount of tax increment the Project Area could receive as long as sufficient indebtedness requirements are reported in the Statement of Indebtedness for the respective fiscal years.

Note: Actual Disbursement in FY 2004-05 was \$675,080 as a result of the Agency's Net Annual Requirement reported in the Statement of Indebtedness filed in FY 2004-05. In FY 2005-06, the Agency's Net Annual Requirement was zero because reported Available Revenues were greater than reported indebtedness.

Source: San Diego County Auditor.

Prepared by Keyser Marston Associates, Inc.

Filename: USDRIP_Feas_2006-11-01.XLS: Hist: 11/1/2006: GSH

Table 2
Comparison of Status Quo and No Project Tax Increment Projections
Upper San Diego River Redevelopment Project
San Diego County Redevelopment Agency
(000s Omitted)

	Status Quo		No Redevelopment Project		Variance	
	Total	NPV	Total	NPV	Total	NPV
ALLOCATION TO REDEVELOPMENT AGENCY						
1 Net Tax Increment to the County RDA	59,822,000	22,038,000	0	0	(59,822,000)	(22,038,000)
2 Housing Set Aside	20,270,000	7,377,000	0	0	(20,270,000)	(7,377,000)
3 Total to County Redevelopment Agency	80,092,000	29,415,000	0	0	(80,092,000)	(29,415,000)
1% Levy						
ALLOCATION TO TAXING AGENCIES						
4 County General	2,846,000	1,090,000	19,560,000	7,148,000	16,714,000	6,058,000
5 County Library	465,000	177,000	3,103,000	1,134,000	2,638,000	957,000
6 SD County Street Lighting Dist	23,000	9,000	155,000	57,000	132,000	48,000
7 Co Svc Area No. 69 Hearland Paramedics	136,000	52,000	911,000	333,000	775,000	281,000
8 County Flood Control Dist	165,000	63,000	1,098,000	401,000	933,000	338,000
9 Lakeside Fire Protection Dist	3,564,000	1,356,000	23,777,000	8,689,000	20,213,000	7,333,000
10 Lakeside Union Elementary School Dist	13,159,000	4,708,000	27,842,000	10,175,000	14,683,000	5,467,000
11 Grossmont Union HS Dist	9,969,000	3,454,000	22,114,000	8,081,000	12,145,000	4,627,000
12 Grossmont Cuyamaca Community College Dist	1,255,000	478,000	8,379,000	3,062,000	7,123,000	2,584,000
13 County School Services	845,000	309,000	1,771,000	647,000	926,000	338,000
14 Lakeside Union County School Bldg Aid	17,000	6,000	112,000	41,000	95,000	35,000
15 Grossmont Healthcare Dist	215,000	82,000	1,436,000	525,000	1,221,000	443,000
16 Greater SD Co Resource Conservation Dist	5,000	2,000	32,000	12,000	27,000	10,000
17 Lakeside Water District	18,000	7,000	119,000	44,000	101,000	37,000
18 Padre Dam Muni Water Dist C	367,000	140,000	2,448,000	895,000	2,081,000	755,000
19 CWA Padre Dam Muni Water Dist	50,000	19,000	335,000	122,000	285,000	103,000
20 Total to Affected Taxing Agencies	33,100,000	11,952,000	113,192,000	41,366,000	80,092,000	29,414,000
(includes Base Year Property Tax and RDA Pass Throughs)						

Table 3 – No Redevelopment Tax Increment Projection

Projection of Property Tax Revenue

No Redevelopment Project

Table 3.1
Property Tax Revenues
Upper San Diego River Redevelopment Project
San Diego County Redevelopment Agency
(000's Omitted)

Plan Yr		1		2		3		4		5		6		7		8		9		10		11		12		13		14	
		Fiscal Year	Existing Value	Real Property		Existing Value at 102%	New Value 102%	Total Value	Personal Property		Existing Value at 100%	New Value 100%	Total Value	Total Project Value	Increment Over Base \$0	Gross Increment Revenue	HSC 33676 Payments	Less Housing Set Aside -20%	Net Increment After Housing										
				Existing Value	Value at 100%																								
17	2006-07	101,950	101,950	0	101,950	53,800	53,800	53,800	53,800	0	53,800	155,750	155,750	155,750	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
18	2007-08	101,950	103,989	10,411	114,400	53,800	53,800	53,800	53,800	2,212	56,013	170,412	170,412	170,412	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
19	2008-09	103,989	106,069	21,029	127,098	53,800	53,800	53,800	53,800	4,425	58,225	185,323	185,323	185,323	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
20	2009-10	106,069	108,190	31,861	140,051	53,800	53,800	53,800	53,800	6,637	60,437	200,488	200,488	200,488	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
21	2010-11	108,190	110,354	42,909	153,263	53,800	53,800	53,800	53,800	8,849	62,649	215,912	215,912	215,912	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
22	2011-12	110,354	112,561	54,177	166,738	53,800	53,800	53,800	53,800	11,061	64,862	231,600	231,600	231,600	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
23	2012-13	112,561	114,812	65,672	180,484	53,800	53,800	53,800	53,800	13,274	67,074	247,558	247,558	247,558	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
24	2013-14	114,812	117,109	77,396	194,504	53,800	53,800	53,800	53,800	15,486	69,286	263,790	263,790	263,790	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25	2014-15	117,109	119,451	89,364	208,805	53,800	53,800	53,800	53,800	17,698	71,498	280,303	280,303	280,303	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
26	2015-16	119,451	121,840	101,552	223,392	53,800	53,800	53,800	53,800	19,910	73,711	297,102	297,102	297,102	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
27	2016-17	121,840	124,277	113,994	238,270	53,800	53,800	53,800	53,800	22,123	75,923	314,193	314,193	314,193	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
28	2017-18	124,277	126,762	116,273	243,036	53,800	53,800	53,800	53,800	22,123	75,923	318,958	318,958	318,958	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
29	2018-19	126,762	129,297	118,599	247,896	53,800	53,800	53,800	53,800	22,123	75,923	323,819	323,819	323,819	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30	2019-20	129,297	131,883	120,971	252,854	53,800	53,800	53,800	53,800	22,123	75,923	328,777	328,777	328,777	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
31	2020-21	131,883	134,521	123,390	257,911	53,800	53,800	53,800	53,800	22,123	75,923	333,834	333,834	333,834	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
32	2021-22	134,521	137,211	125,858	263,069	53,800	53,800	53,800	53,800	22,123	75,923	338,992	338,992	338,992	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
33	2022-23	137,211	139,956	128,375	268,331	53,800	53,800	53,800	53,800	22,123	75,923	344,254	344,254	344,254	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
34	2023-24	139,956	142,755	130,943	273,697	53,800	53,800	53,800	53,800	22,123	75,923	349,620	349,620	349,620	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
35	2024-25	142,755	145,610	133,562	279,171	53,800	53,800	53,800	53,800	22,123	75,923	355,094	355,094	355,094	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
36	2025-26	145,610	148,522	136,233	284,755	53,800	53,800	53,800	53,800	22,123	75,923	360,678	360,678	360,678	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
37	2026-27	148,522	151,492	138,968	290,450	53,800	53,800	53,800	53,800	22,123	75,923	366,373	366,373	366,373	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
38	2027-28	151,492	154,522	141,737	296,259	53,800	53,800	53,800	53,800	22,123	75,923	372,182	372,182	372,182	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
39	2028-29	154,522	157,613	144,571	302,184	53,800	53,800	53,800	53,800	22,123	75,923	378,107	378,107	378,107	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
40	2029-30	157,613	160,765	147,463	308,228	53,800	53,800	53,800	53,800	22,123	75,923	384,151	384,151	384,151	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
41	2030-31	160,765	163,980	150,412	314,392	53,800	53,800	53,800	53,800	22,123	75,923	390,315	390,315	390,315	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
42	2031-32	163,980	167,260	153,420	320,680	53,800	53,800	53,800	53,800	22,123	75,923	396,603	396,603	396,603	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
43	2032-33	167,260	170,605	156,489	327,094	53,800	53,800	53,800	53,800	22,123	75,923	403,017	403,017	403,017	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
44	2033-34	170,605	174,017	159,619	333,636	53,800	53,800	53,800	53,800	22,123	75,923	409,559	409,559	409,559	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
45	2034-35	174,017	177,497	162,811	340,308	53,800	53,800	53,800	53,800	22,123	75,923	416,231	416,231	416,231	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
46	2035-36	177,497	181,047	166,067	347,115	53,800	53,800	53,800	53,800	22,123	75,923	423,037	423,037	423,037	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
47	2036-37	181,047	184,668	169,368	354,057	53,800	53,800	53,800	53,800	22,123	75,923	429,980	429,980	429,980	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
48	2037-38	184,668	188,362	172,776	361,138	53,800	53,800	53,800	53,800	22,123	75,923	437,061	437,061	437,061	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
49	2038-39	188,362	192,129	176,232	368,361	53,800	53,800	53,800	53,800	22,123	75,923	444,284	444,284	444,284	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
50	2039-40	192,129	195,972	179,756	375,728	53,800	53,800	53,800	53,800	22,123	75,923	451,651	451,651	451,651	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTALS																													
TOTAL NPV																													
6%																													

Table 3.2
Property Tax Revenues
Upper San Diego River Redevelopment Project
San Diego County Redevelopment Agency
(000s Omitted)

Plan	Fiscal	15	16	17	18	19
Yr	Year	Net Increment After Housing	Less Grossmont Union HSD -19.38%	Less Lakeside Union SD -22.44%	Less Co Office of Education -1.55%	Net Increment After Tax Sharing
17	2006-07	0	0	0	0	0
18	2007-08	0	0	0	0	0
19	2008-09	0	0	0	0	0
20	2009-10	0	0	0	0	0
21	2010-11	0	0	0	0	0
22	2011-12	0	0	0	0	0
23	2012-13	0	0	0	0	0
24	2013-14	0	0	0	0	0
25	2014-15	0	0	0	0	0
26	2015-16	0	0	0	0	0
27	2016-17	0	0	0	0	0
28	2017-18	0	0	0	0	0
29	2018-19	0	0	0	0	0
30	2019-20	0	0	0	0	0
31	2020-21	0	0	0	0	0
32	2021-22	0	0	0	0	0
33	2022-23	0	0	0	0	0
34	2023-24	0	0	0	0	0
35	2024-25	0	0	0	0	0
36	2025-26	0	0	0	0	0
37	2026-27	0	0	0	0	0
38	2027-28	0	0	0	0	0
39	2028-29	0	0	0	0	0
40	2029-30	0	0	0	0	0
41	2030-31	0	0	0	0	0
42	2031-32	0	0	0	0	0
43	2032-33	0	0	0	0	0
44	2033-34	0	0	0	0	0
45	2034-35	0	0	0	0	0
46	2035-36	0	0	0	0	0
47	2036-37	0	0	0	0	0
48	2037-38	0	0	0	0	0
49	2038-39	0	0	0	0	0
50	2039-40	0	0	0	0	0
TOTALS		0	0	0	0	0
		0	0	0	0	0

No Redevelopment Project

Table 3.3
Allocations to Affected Taxing Agencies (Property Taxes)
Upper San Diego River Redevelopment Project
San Diego County Redevelopment Agency
(000s Omitted)

Plan	Fiscal Year	County General	County Library	County Street Lighting	Svc Area 69 Heartland Paramedics	County Flood Control	Lakeside File Protection	Grossmont Healthcare	Greater SD Co Res Cons	Lakeside Water	Padre Dam Municipal Water	CWA Padre Dam Muni Water
Yr		17.28%	2.74%	0.14%	0.80%	0.97%	21.01%	1.27%	0.03%	0.11%	2.18%	0.30%
17	2006-07	269	43	2	13	15	327	20	0	2	34	5
18	2007-08	294	47	2	14	17	358	22	0	2	37	5
19	2008-09	320	51	3	15	18	389	24	1	2	40	5
20	2009-10	346	55	3	16	19	421	25	1	2	43	6
21	2010-11	373	59	3	17	21	454	27	1	2	47	6
22	2011-12	400	63	3	19	22	487	29	1	2	50	7
23	2012-13	428	68	3	20	24	520	31	1	3	54	7
24	2013-14	456	72	4	21	26	554	33	1	3	57	8
25	2014-15	484	77	4	23	27	589	36	1	3	61	8
26	2015-16	513	81	4	24	29	624	38	1	3	64	9
27	2016-17	543	86	4	25	30	660	40	1	3	68	9
28	2017-18	551	87	4	26	31	670	40	1	3	69	9
29	2018-19	560	89	4	26	31	680	41	1	3	70	10
30	2019-20	568	90	4	26	32	691	42	1	3	71	10
31	2020-21	577	92	5	27	32	701	42	1	4	72	10
32	2021-22	586	93	5	27	33	712	43	1	4	73	10
33	2022-23	595	94	5	28	33	723	44	1	4	74	10
34	2023-24	604	96	5	28	34	734	44	1	4	76	10
35	2024-25	614	97	5	29	34	746	45	1	4	77	10
36	2025-26	623	99	5	29	35	758	46	1	4	78	11
37	2026-27	633	100	5	29	36	770	46	1	4	79	11
38	2027-28	643	102	5	30	36	782	47	1	4	80	11
39	2028-29	653	104	5	30	37	794	48	1	4	82	11
40	2029-30	664	105	5	31	37	807	49	1	4	83	11
41	2030-31	674	107	5	31	38	820	50	1	4	84	12
42	2031-32	685	108	5	32	38	833	50	1	4	86	12
43	2032-33	696	110	6	32	39	847	51	1	4	87	12
44	2033-34	708	112	6	33	40	860	52	1	4	89	12
45	2034-35	719	114	6	33	40	874	53	1	4	90	12
46	2035-36	731	116	6	34	41	889	54	1	4	91	13
47	2036-37	743	118	6	35	42	903	55	1	5	93	13
48	2037-38	755	120	6	35	42	918	55	1	5	95	13
49	2038-39	768	122	6	36	43	933	56	1	5	96	13
50	2039-40	780	124	6	36	44	949	57	1	5	98	13
TOTALS		19,560	3,103	155	911	1,098	23,777	1,436	32	119	2,448	335
		7,148	1,134	57	333	401	8,689	525	12	44	895	122

Table 3.3
No Redevelopment Project
Allocations to Affected Taxing Agencies (Property Taxes)
Upper San Diego River Redevelopment Project
San Diego County Redevelopment Agency
(000s Omitted)

Plan	Fiscal	31	32	33	34	35	36
Yr.	Year	Lakeside Union Elementary 24.60%	Grossmont Union High Schools 19.54%	Grossmont Cuyamaca Comm Coll 7.40%	County School Services 1.56%	Lakeside School Bldg Aid 0.10%	Totals to all Taxing Agencies
17	2006-07	383	304	115	24	2	1,558
18	2007-08	419	333	126	27	2	1,704
19	2008-09	456	362	137	29	2	1,853
20	2009-10	493	392	148	31	2	2,005
21	2010-11	531	422	160	34	2	2,159
22	2011-12	570	452	171	36	2	2,316
23	2012-13	609	484	183	39	2	2,476
24	2013-14	649	515	195	41	3	2,638
25	2014-15	689	548	207	44	3	2,803
26	2015-16	731	580	220	46	3	2,971
27	2016-17	773	614	233	49	3	3,142
28	2017-18	785	623	236	50	3	3,180
29	2018-19	797	633	240	51	3	3,238
30	2019-20	809	642	243	51	3	3,288
31	2020-21	821	652	247	52	3	3,338
32	2021-22	834	662	251	53	3	3,390
33	2022-23	847	673	255	54	3	3,443
34	2023-24	860	683	259	55	3	3,496
35	2024-25	873	694	263	56	4	3,551
36	2025-26	887	705	267	56	4	3,607
37	2026-27	901	716	271	57	4	3,664
38	2027-28	915	727	275	58	4	3,722
39	2028-29	930	739	280	59	4	3,781
40	2029-30	945	751	284	60	4	3,842
41	2030-31	960	763	289	61	4	3,903
42	2031-32	976	775	294	62	4	3,966
43	2032-33	991	787	298	63	4	4,030
44	2033-34	1,007	800	303	64	4	4,096
45	2034-35	1,024	813	308	65	4	4,162
46	2035-36	1,041	826	313	66	4	4,230
47	2036-37	1,058	840	318	67	4	4,300
48	2037-38	1,075	854	324	68	4	4,371
49	2038-39	1,093	868	329	70	4	4,443
50	2039-40	1,111	882	334	71	4	4,517
TOTALS		27,842	22,114	8,379	1,771	112	113,190
		10,175	8,081	3,062	647	41	41,365

Table 4 – Status Quo Tax Increment Projection

Projection of Tax Increment Revenue

Table 4.1
Tax Increment Revenue Projection - Net After Housing Set Aside
Upper San Diego River Redevelopment Project
San Diego County Redevelopment Agency

Tax Increment Revenue Projection - Net After Housing Set Aside

(000\$ Omitted)

Plan Yr	Fiscal Year	Real Property				Personal Property				9 Total Project Value	10 Increment Over Base \$17,527	11 Gross Increment Revenue	12 HSC 33676 Payments	13 Less Housing Set Aside -20%	14 Net Increment After Housing				
		Existing		New Value		Existing		New Value											
		1	2	3	4	5	6	7	8										
Existing Value	Existing Value at 102%	New Value 102%	Total Value	Existing Value	Existing Value at 100%	New Value 100%	Total Value												
17	2006-07	101,950	101,950	0	101,950	53,800	53,800	0	53,800	155,750	138,224	0	0	0	0				
18	2007-08	101,950	103,989	10,411	114,400	53,800	53,800	2,212	56,013	170,412	152,885	1,529	(4)	(305)	1,220				
19	2008-09	103,989	106,069	21,029	127,098	53,800	53,800	4,425	58,225	185,323	167,796	1,678	(4)	(335)	1,339				
20	2009-10	106,069	108,190	31,861	140,051	53,800	53,800	6,637	60,437	200,488	182,961	1,830	(4)	(365)	1,461				
21	2010-11	108,190	110,354	42,909	153,263	53,800	53,800	8,849	62,649	215,912	199,385	1,984	(4)	(396)	1,584				
22	2011-12	110,354	112,561	54,177	166,738	53,800	53,800	11,061	64,862	231,600	214,073	2,141	(4)	(427)	1,709				
23	2012-13	112,561	114,812	65,672	180,484	53,800	53,800	13,274	67,074	247,558	230,031	2,300	(4)	(459)	1,837				
24	2013-14	114,812	117,109	77,396	194,504	53,800	53,800	15,486	69,286	263,790	245,263	2,463	(4)	(492)	1,967				
25	2014-15	117,109	119,451	89,354	208,805	53,800	53,800	17,698	71,498	280,303	262,776	2,628	(4)	(525)	2,099				
26	2015-16	119,451	121,840	101,552	223,392	53,800	53,800	19,910	73,711	297,102	279,575	2,796	(4)	(558)	2,233				
27	2016-17	121,840	124,277	113,994	238,270	53,800	53,800	22,123	75,923	314,193	295,666	2,967	(4)	(592)	2,370				
28	2017-18	124,277	126,762	118,273	243,036	53,800	53,800	22,123	75,923	318,958	301,432	3,014	(5)	(602)	2,408				
29	2018-19	126,762	129,297	118,599	247,896	53,800	53,800	22,123	75,923	323,819	306,292	3,063	(5)	(612)	2,447				
30	2019-20	129,297	131,883	120,971	252,854	53,800	53,800	22,123	75,923	328,777	311,250	3,113	(5)	(622)	2,486				
31	2020-21	131,883	134,521	123,390	257,911	53,800	53,800	22,123	75,923	333,834	316,307	3,163	(5)	(632)	2,527				
32	2021-22	134,521	137,211	125,858	263,069	53,800	53,800	22,123	75,923	338,992	321,466	3,215	(5)	(642)	2,568				
33	2022-23	137,211	139,956	128,375	268,331	53,800	53,800	22,123	75,923	344,254	326,727	3,267	(5)	(652)	2,610				
34	2023-24	139,956	142,755	130,943	273,697	53,800	53,800	22,123	75,923	349,620	332,094	3,321	(5)	(663)	2,653				
35	2024-25	142,755	145,610	133,562	279,171	53,800	53,800	22,123	75,923	355,094	337,568	3,376	(5)	(674)	2,696				
36	2025-26	145,610	148,522	136,233	284,755	53,800	53,800	22,123	75,923	360,678	343,151	3,432	(5)	(685)	2,741				
37	2026-27	148,522	151,492	138,958	290,450	53,800	53,800	22,123	75,923	366,373	348,846	3,488	(5)	(697)	2,786				
38	2027-28	151,492	154,522	141,737	296,259	53,800	53,800	22,123	75,923	372,182	354,655	3,547	(6)	(708)	2,933				
39	2028-29	154,522	157,613	144,571	302,184	53,800	53,800	22,123	75,923	378,107	360,580	3,606	(6)	(720)	2,880				
40	2029-30	157,613	160,765	147,463	308,228	53,800	53,800	22,123	75,923	384,151	366,624	3,666	(6)	(732)	2,928				
41	2030-31	160,765	163,980	150,412	314,392	53,800	53,800	22,123	75,923	390,315	372,788	3,728	(6)	(744)	2,978				
42	2031-32	163,980	167,260	153,420	320,680	53,800	53,800	22,123	75,923	396,603	379,076	3,791	(6)	(757)	3,028				
43	2032-33	167,260	170,605	156,489	327,084	53,800	53,800	22,123	75,923	403,017	385,490	3,855	(6)	(770)	3,079				
44	2033-34	170,605	174,017	159,619	333,636	53,800	53,800	22,123	75,923	409,559	392,032	3,920	(6)	(783)	3,131				
45	2034-35	174,017	177,497	162,811	340,308	53,800	53,800	22,123	75,923	416,231	398,705	3,987	(6)	(796)	3,185				
46	2035-36	177,497	181,047	166,067	347,115	53,800	53,800	22,123	75,923	423,037	405,511	4,055	(6)	(810)	3,239				
47	2036-37	181,047	184,668	169,398	354,057	53,800	53,800	22,123	75,923	429,980	412,453	4,125	(7)	(824)	3,294				
48	2037-38	184,668	188,362	172,778	361,138	53,800	53,800	22,123	75,923	437,061	419,534	4,195	(7)	(838)	3,351				
49	2038-39	188,362	192,129	176,232	368,361	53,800	53,800	22,123	75,923	444,284	426,757	4,268	(7)	(852)	3,409				
50	2039-40	192,129	195,972	179,756	375,728	53,800	53,800	22,123	75,923	451,651	434,124	0	0	0	0				
TOTALS																101,508	(164)	(20,269)	81,075
TOTAL NPV																36,944	(62)	(7,376)	29,506
																6%			

Prepared by Keyser Marston Associates, Inc.

Filename: USDRIIP_Feas_2006-11-01.XLS; TI Status Quo: 11/1/2006; GSH: Page 1 of 4

Table 4.2
Tax Increment Revenue Projection - Net After Senior Obligations
Upper San Diego River Redevelopment Project
San Diego County Redevelopment Agency
(000s Omitted)

Status Quo

Plan Yr	Fiscal Year	15 Net Increment After Housing	16 Less Grossmont Union HSD -19.38%	17 Less Lakeside Union SD -22.44%	18 Less Co Office of Education -1.55%	19 Less Triggered Statutory Pass Through	20 Net Increment After Tax Sharing
17	2006-07	0	0	0	0	0	0
18	2007-08	1,220	(52)	(127)	(10)	0	1,031
19	2008-09	1,339	(57)	(139)	(11)	0	1,132
20	2009-10	1,461	(62)	(151)	(12)	0	1,235
21	2010-11	1,584	(123)	(166)	(13)	(17)	1,246
22	2011-12	1,709	(133)	(200)	(14)	(34)	1,329
23	2012-13	1,837	(142)	(215)	(15)	(51)	1,414
24	2013-14	1,967	(152)	(230)	(16)	(69)	1,500
25	2014-15	2,099	(163)	(245)	(17)	(87)	1,587
26	2015-16	2,233	(199)	(261)	(18)	(105)	1,650
27	2016-17	2,370	(211)	(277)	(19)	(123)	1,739
28	2017-18	2,408	(215)	(282)	(19)	(129)	1,763
29	2018-19	2,447	(219)	(287)	(20)	(134)	1,788
30	2019-20	2,486	(223)	(292)	(20)	(139)	1,813
31	2020-21	2,527	(256)	(331)	(20)	(148)	1,771
32	2021-22	2,568	(261)	(337)	(21)	(157)	1,793
33	2022-23	2,610	(265)	(343)	(21)	(166)	1,815
34	2023-24	2,653	(270)	(349)	(22)	(175)	1,838
35	2024-25	2,696	(275)	(355)	(22)	(184)	1,861
36	2025-26	2,741	(280)	(361)	(22)	(194)	1,884
37	2026-27	2,786	(285)	(367)	(23)	(203)	1,908
38	2027-28	2,833	(290)	(374)	(23)	(213)	1,933
39	2028-29	2,880	(295)	(380)	(24)	(223)	1,958
40	2029-30	2,928	(300)	(387)	(24)	(234)	1,983
41	2030-31	2,978	(306)	(394)	(24)	0	2,254
42	2031-32	3,028	(311)	(401)	(25)	0	2,291
43	2032-33	3,079	(317)	(408)	(25)	0	2,329
44	2033-34	3,131	(322)	(415)	(26)	0	2,368
45	2034-35	3,185	(328)	(423)	(26)	0	2,407
46	2035-36	3,239	(334)	(430)	(27)	0	2,447
47	2036-37	3,294	(340)	(438)	(27)	0	2,489
48	2037-38	3,351	(346)	(446)	(28)	0	2,531
49	2038-39	3,409	(353)	(454)	(28)	0	2,573
50	2039-40	0	0	0	0	0	0
TOTALS		81,075	(7,686)	(10,285)	(662)	(2,763)	59,658
		29,506	(2,591)	(3,620)	(240)	(1,079)	21,976

Status Quo

Table 4.3
Allocations to Affected Taxing Agencies (Base Revenue & Pass Throughs)
Upper San Diego River Redevelopment Project
San Diego County Redevelopment Agency
(000s Omitted)

21		22	23	24	25	26	27	28	29	30	31	
Plan	Fiscal	County	County	County	County	Lakeside	Grossmont	Greater	Lakeside	Padre Dam	CWA	
Yr	Year	General	Library	Street	Svc Area 69	Flood	Healthcare	SD Co	Water	Municipal	Muni Water	
		17.28%	2.74%	0.14%	0.80%	0.97%	1.27%	0.03%	0.11%	2.16%	0.30%	
17	2008-07	269	43	2	13	15	327	20	0	2	34	5
18	2007-08	30	5	0	1	2	37	2	0	0	4	1
19	2008-09	30	5	0	1	2	37	2	0	0	4	1
20	2009-10	30	5	0	1	2	37	2	0	0	4	1
21	2010-11	36	6	0	2	2	43	3	0	0	4	1
22	2011-12	41	7	0	2	2	50	3	0	0	5	1
23	2012-13	47	7	0	2	3	57	3	0	0	6	1
24	2013-14	52	8	0	2	3	63	4	0	0	7	1
25	2014-15	58	9	0	3	3	70	4	0	0	7	1
26	2015-16	64	10	1	3	4	77	5	0	0	8	1
27	2016-17	70	11	1	3	4	85	5	0	0	9	1
28	2017-18	71	11	1	3	4	87	5	0	0	9	1
29	2018-19	73	12	1	3	4	89	5	0	0	9	1
30	2019-20	75	12	1	3	4	91	5	0	0	9	1
31	2020-21	76	12	1	4	4	95	6	0	0	10	1
32	2021-22	78	13	1	4	5	99	6	0	0	10	1
33	2022-23	80	13	1	4	5	103	6	0	1	11	1
34	2023-24	82	14	1	4	5	107	6	0	1	11	2
35	2024-25	84	14	1	4	5	111	7	0	1	11	2
36	2025-26	86	15	1	4	5	115	7	0	1	12	2
37	2026-27	88	16	1	5	6	120	7	0	1	12	2
38	2027-28	90	16	1	5	6	124	7	0	1	13	2
39	2028-29	92	17	1	5	6	129	8	0	1	13	2
40	2029-30	94	17	1	5	6	133	8	0	1	14	2
41	2030-31	30	5	0	1	2	37	2	0	0	4	1
42	2031-32	30	5	0	1	2	37	2	0	0	4	1
43	2032-33	30	5	0	1	2	37	2	0	0	4	1
44	2033-34	30	5	0	1	2	37	2	0	0	4	1
45	2034-35	30	5	0	1	2	37	2	0	0	4	1
46	2035-36	30	5	0	1	2	37	2	0	0	4	1
47	2036-37	30	5	0	1	2	37	2	0	0	4	1
48	2037-38	30	5	0	1	2	37	2	0	0	4	1
49	2038-39	30	5	0	1	2	37	2	0	0	4	1
50	2039-40	780	124	6	36	44	949	57	1	5	98	13
TOTALS		2,846	465	23	136	165	3,564	215	5	18	367	50
		1,090	177	9	52	63	1,356	82	2	7	140	19

Table 4.3
Allocations to Affected Taxing Agencies (Base Revenue & Pass Throughs)
Upper San Diego River Redevelopment Project
San Diego County Redevelopment Agency
(000s Omitted)

Status Quo

Plan Yr	Fiscal Year	32 Lakeside Union Elementary 24.60%	33 Grossmont Union High Schools 19.54%	34 Grossmont Cuyamaca Comm Coll 7.40%	35 County School Services 1.58%	36 Lakeside School Bldg Aid 0.10%	37 Totals to all Taxing Agencies
17	2006-07	383	304	115	24	2	1,558
18	2007-08	170	86	13	13	0	364
19	2008-09	182	91	13	14	0	382
20	2009-10	195	96	13	15	0	401
21	2010-11	229	157	15	16	0	513
22	2011-12	243	167	18	17	0	556
23	2012-13	258	177	20	18	0	599
24	2013-14	273	187	22	19	0	642
25	2014-15	289	197	25	20	0	687
26	2015-16	304	233	27	21	0	758
27	2016-17	320	245	30	22	0	806
28	2017-18	325	249	31	22	0	820
29	2018-19	330	253	31	23	0	834
30	2019-20	335	257	32	23	0	849
31	2020-21	374	291	33	23	0	931
32	2021-22	380	295	35	24	0	950
33	2022-23	386	300	36	24	0	970
34	2023-24	392	304	38	24	1	990
35	2024-25	398	309	39	25	1	1,011
36	2025-26	404	314	41	25	1	1,032
37	2026-27	410	319	42	26	1	1,053
38	2027-28	417	324	44	26	1	1,075
39	2028-29	424	329	45	26	1	1,098
40	2029-30	430	334	47	27	1	1,120
41	2030-31	437	340	13	27	0	899
42	2031-32	444	345	13	28	0	912
43	2032-33	451	351	13	28	0	926
44	2033-34	459	357	13	28	0	939
45	2034-35	466	363	13	29	0	953
46	2035-36	474	368	13	29	0	967
47	2036-37	481	375	13	30	0	981
48	2037-38	489	381	13	30	0	996
49	2038-39	497	387	13	31	0	1,010
50	2039-40	1,111	882	334	71	4	4,517
TOTALS		13,159	9,969	1,256	845	17	33,100
		4,708	3,454	478	309	6	11,951

V. Redevelopment Plan Considerations

SB 211 Elimination of Debt Incurrence Time Limit

The Redevelopment Project is approaching its July 18, 2009 time limit on establishing debt. In October 2001, SB 211 was signed into law authorizing redevelopment agencies with pre-1994 project areas to repeal the time limit for making loans and establishing debt without complying with normal amendment procedures. Under SB 211, Section §33333.10 of the Health and Safety Code was amended to allow the Redevelopment Agency, by adoption of a summary ordinance, to eliminate the time limit on the establishment of loans, advances, and indebtedness.

In adopting this ordinance, the Redevelopment Agency is not required to comply with Health and Safety Code Section 33354.6 or Article 12 (commencing with Section 33450) or any other provision of this part relating to the amendment of redevelopment plans. However, the Project Area is required to make the statutory pass-through payments to affected taxing entities as required by Health and Safety Code Section 33607.7(b)(2) through the effectiveness date of the Redevelopment Plan. Pass-through agreements with taxing agencies continue to remain in effect and no further statutory pass-through is required other than that already provided for in the tax sharing agreement.

After the January 18, 2009 debt establishment limit has been reached, the Redevelopment Agency may not enter into any new loans or incur any new indebtedness. New indebtedness typically is associated with tax allocation bonds, notes, certificates of participation or traditional bank loans. However, there are other forms of indebtedness options that the Redevelopment Agency will not be able to incur if the debt incurrence time limit has passed.

For example, Owner Participation Agreements (OPAs) and Disposition and Development Agreements (DDAs) typically include a lending provision. Without repealing the debt establishment limit, the Redevelopment Agency will not be able to enter into any new development agreements if the opportunity to do so arises. Another example is through annually renewed cooperation agreements between the Redevelopment Agency and the County General Fund, in which County staff function as Redevelopment Agency staff. The County staff time (paid out of the County General Fund) is reimbursed from redevelopment tax increment. This type of cooperation agreement would not be permitted if the Redevelopment Agency has reached its debt establishment limit.

SB 1045 and SB 1096 Plan Extensions

Pursuant to SB 1045 (Chapter 260 adopted September 2003) in connection with adoption of statutes requiring an ERAF shift for fiscal year 2003-04, and pursuant to SB 1096 (Chapter 211 adopted August 2004) in connection with the adoption of statutes requiring an ERAF shift for fiscal years 2004-05 and 2005-06, the State Legislature authorized amendments of redevelopment plans to extend, by one year for each year such ERAF payments were made, the time limit of the effectiveness of the plan and the time limit to repay indebtedness and receive tax increment. With respect to SB 1045 and SB 1096, the Redevelopment Plan can be amended by summary ordinance to extend the time limits of the Redevelopment Plan by three additional years. For purposes of the attached cash flow projection, the tax increment revenue analysis does not reflect the extensions since the Agency has not adopted such elections.

VI. Housing Set-Aside

Excess Surplus

Health and Safety Code Section 33334.12 requires that redevelopment agencies expend or encumber the amount in the Low and Moderate Income Housing Fund that exceeds the greater of \$1 million or the aggregate amount deposited into the Housing Fund during the Agency's preceding four (4) fiscal years. If the Redevelopment Agency, after three (3) years have elapsed from the date that the moneys became excess surplus, has not expended or encumbered the excess surplus, the Agency shall also be required to pay an excess surplus penalty. The excess surplus penalty is equal to 50% of the amount of the excess surplus that remains at the end of the three-year period. The penalty may not be funded from the 20% set-aside, but must be used for low and moderate income housing purposes. According to the Agency's draft Implementation Plan, at the end of fiscal year 2004-2005, the Housing Fund balance unused allocations was \$492,499.

Replacement Housing

This obligation requires that the Redevelopment Agency replace, on a one-for-one basis, low and moderate income dwelling units destroyed or removed from the Project Areas. This requirement became applicable only as to dwelling units destroyed or removed from the Project Area on or after January 1, 1996. According to the Agency's draft Implementation Plan, no housing unit has been destroyed or removed from the Project Area per Health and Safety Code Section 33413(a). Consequently, this requirement is satisfied.

Inclusionary Housing

This obligation requires that certain percentages of housing newly constructed or substantially rehabilitated by the Agency or within the Project Area by others be restricted for occupancy by low and moderate income households. It is applicable only to project areas adopted on or after January 1, 1976. According to the Agency's draft Implementation Plan, the Agency must meet the requirements of Health and Safety Code Section 33413(b)(2)(A)(i) because private entities or persons have constructed or rehabilitated dwelling units within the Project Area.

As stated in the draft Implementation Plan, based upon the number of residential units constructed within the Project Area, the inclusionary housing requirement will be met by making available eight affordable housing units to persons and families of low or moderate income. The Agency may meet the inclusionary housing requirement by providing two affordable units outside the Project Area for each unit that otherwise would have been required to be available inside the Project Area.

VII. Feasibility Cash Flow

Termination of the Project Area

If the Redevelopment Agency decides to terminate the effectiveness of the Redevelopment Plan, then the Redevelopment Law would require that there be no outstanding bonded indebtedness, no other unpaid loans, indebtedness, or advances, and no legally binding contractual obligations with persons or entities other than the County.

Based on the FY 2005-06 Statement of Indebtedness, the Project Area only has an outstanding debt to the County General Fund totaling \$1,152,417 in principal and accrued interest. Based upon information reflected in the Statement of Indebtedness, the Redevelopment Agency may have sufficient "available revenues" carried forward to begin to repay this debt commencing in FY 2006-07, and receive tax increment revenues in FY 2006-07 to fully pay back any balance remaining.

Under Health and Safety Code Section 33333.8, the Redevelopment Plan cannot be terminated if the Redevelopment Agency has not complied with its obligations pertaining to replacement housing (Section 33413(a)), inclusionary housing (Section 33413(b)), or excess surplus housing funds (Section 33334.12). Since the Project Area contributes the annual housing set-aside to the Redevelopment Agency's pooled Housing Fund, and since the Housing Fund will continue to be funded by set-aside deposits from the Gillespie Field Redevelopment Project, the requirements of Section 33333.8 should not prevent termination of the Project Area if the Redevelopment Agency is in full compliance.

Continuation of the Project Area

The cash flow projected on Table 5 was created to identify the amount of net tax increment revenues that may be annually available should the Project Area continue to remain active. The cash flow projection represents one possible scenario of implementation that would result in the following:

- Repayment of all existing senior lien debt obligations (i.e. County General Fund Loan).
- Issuance of a series of tax allocation bonds, assuming that the debt incurrence time limit is eliminated by Agency election under SB 211, to fund qualified public improvements in the Project Area.
- Funding of future projects, programs and activities that the Redevelopment Agency may desire to implement on a "pay as you go" basis until the term of the projection.

- o Funding of low and moderate income housing projects, programs and activities to be used by the Redevelopment Agency both inside or outside of the Project Area.

To create the Table 5 cash flow for the Status Quo scenario, the following assumptions were incorporated in the projection:

1. Resources include net tax increment revenues, net proceeds from any future sale of tax allocation bonds and interest income. After termination of the effectiveness of the Redevelopment Plan, the last 10 years of the cash flow projection reflect the receipt of tax increment revenues to meet assumed indebtedness. All other Project Area activities cease after the Redevelopment Plan terminates.
2. Future net bond proceeds assume that the Redevelopment Agency elects to incur new bonded indebtedness in five-year increments provided that the net bond proceeds amount to at least \$1 million. The cash flow scenario assumes the first new money bond issue by FY 2009-10, and assumes that all of the net proceeds are expended at the time of receipt. The net bond proceeds are based on a tax-exempt bond rate at 6%, a 1.35 times coverage requirement, and a 12% net bond proceeds factor.
3. Future debt service is based upon the assumed bond issue commencing in FY 2009-10 and is derived from the bond sizing assumptions outlined above. Debt service will end at the termination of the cash flow projection when the Project Area is no longer eligible to receive tax increment revenue to repay debt.
4. Administration and Other Charges – Administrative costs and other charges related to Project Area operations for FY 2006-07 and FY 2007-08, are based on proposed budget amounts for the Project Area. Commencing in FY 2008-09, KMA has assumed, for purposes of this cash flow scenario, that if the Project Area will continue, then the Administrative budget will increase to \$500,000. Subsequent year administrative expenses would increase 2% per year thereafter.
5. Twenty percent of annual tax increment revenue is required to be deposited in the Redevelopment Agency's Housing Fund. The same amount is assumed to be expended on a pay-as-you-go basis each year.
6. Based on the FY 2005-06 Statement of Indebtedness, the Project Area has an outstanding debt to the County General Fund totaling \$1,152,417 in principal and accrued interest. There may be sufficient "available revenues" to begin to repay this debt commencing in FY 2006-07 and have the County General Fund debt fully repaid by FY 2008-09.

The resulting cash flow created on Table 5 reflects the following nominal and present value totals over the term of the projection:

<u>Resources</u>	Total	NPV at 6%
Beginning Balance (estimated)	\$842,000	
Net Tax Increment	50,053,000	20,209,000
Housing Set-Aside Deposits	16,116,000	6,610,000
Interest Earnings	2,678,000	1,072,000
Future Net Bond Proceeds	<u>15,701,000</u>	<u>11,260,000</u>
Total Projected Resources	\$85,390,000	\$39,151,000
<u>Expenditures</u>		
Future Bond Debt Service	\$35,964,000	12,611,000
Low & Moderate Income Housing	16,116,000	6,610,000
Administration & Other Charges	14,982,000	7,221,000
County GF Loan Repayment	1,190,000	1,076,000
Discretionary (bond proceeds)	<u>17,138,000</u>	<u>11,615,000</u>
Total Projected Expenses	\$85,390,000	\$39,133,000

Table 5 – Status Quo Cash Flow

CASH FLOW PROJECTION

Table 5
Status Quo Cash Flow
Upper San Diego River Redevelopment Project
San Diego County Redevelopment Agency
(000's Omitted)

Status Quo

Plan Year:		17	18	19	20	21	22	23	24	25	26	27	28	29
		2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
1	Available Fund Balance	842	0	0	499	1,243	1,139	1,104	1,142	1,256	1,452	1,457	1,540	1,638
Resources:														
2	Net Tax Increment	0	1,031	1,132	1,235	1,246	1,329	1,414	1,500	1,587	1,650	1,739	1,763	1,788
3	Housing Set Aside	0	305	335	365	396	427	459	492	525	558	592	602	612
4	Fund Interest Earnings at 4%	33	0	0	19	49	45	44	45	50	58	58	61	65
5	Reserve Interest Earnings at 4%	0	0	0	0	37	37	37	37	37	47	47	47	47
6	Total Annual Resources	33	1,336	1,467	1,619	1,727	1,838	1,953	2,073	2,199	2,313	2,437	2,473	2,511
Expenditures:														
7	Future TA Bond Debt Service	0	0	0	0	915	915	915	915	915	1,176	1,176	1,176	1,176
8	Low & Moderate Income Housing	0	305	335	365	396	427	459	492	525	558	592	602	612
9	Administration (2% annual growth)	175	179	500	510	520	531	541	552	563	574	586	598	609
10	Other Charges	248	248	0	0	0	0	0	0	0	0	0	0	0
11	Total Annual Expenditures	423	732	835	875	1,831	1,873	1,915	1,959	2,003	2,308	2,354	2,375	2,397
12	Cash Balance Remaining	452	604	632	1,243	1,139	1,104	1,142	1,256	1,452	1,457	1,540	1,638	1,752
Potential New Resources:														
13	Net Bond Proceeds - Future	0	0	0	11,083	0	0	0	0	2,934	0	0	0	0
14	Total New Resources	0	0	0	11,083	0	0	0	0	2,934	0	0	0	0
Potential New Expenditures:														
15	Co GF Loan Repayment (100% of Net)	452	604	134	0	0	0	0	0	0	0	0	0	0
16	Discretionary Projects (bond proceeds)	0	0	0	11,083	0	0	0	0	2,934	0	0	0	0
17	Total New Expenditures	452	604	134	11,083	0	0	0	0	2,934	0	0	0	0
18	Ending Balance	0	0	499	1,243	1,139	1,104	1,142	1,256	1,452	1,457	1,540	1,638	1,752

Table 5

Status Quo Cash Flow
Upper San Diego River Redevelopment Project
San Diego County Redevelopment Agency
(000's Omitted)

	Plan Year:												Plan & Debt Incurrence Limit		
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32		
1	Available Fund Balance														
2	Resources:														
3	1,813	1,771	1,793	1,815	1,838	1,861	1,884	1,908	1,933	1,958	1,983	1,343	1,343		
4	622	632	642	652	663	674	685	697	708	720	732	336	336		
5	70	75	72	69	66	64	62	60	59	58	57	0	0		
6	47	54	54	54	54	54	54	54	54	54	54	54	54		
7	2,551	2,531	2,560	2,590	2,620	2,652	2,685	2,719	2,754	2,790	2,826	1,732	1,732		
8	Expenditures:														
9	1,176	1,343	1,343	1,343	1,343	1,343	1,343	1,343	1,343	1,343	1,343	1,343	1,343		
10	622	632	642	652	663	674	685	697	708	720	732	336	336		
11	622	634	647	660	673	686	700	714	728	743	758	54	54		
12	0	0	0	0	0	0	0	0	0	0	0	0	0		
13	2,419	2,608	2,631	2,655	2,679	2,703	2,728	2,753	2,779	2,806	2,833	1,732	1,732		
14	1,884	1,807	1,736	1,671	1,613	1,562	1,519	1,485	1,459	1,443	1,437	0	0		
15	Potential New Resources:														
16	1,684	0	0	0	0	0	0	0	0	0	0	0	0		
17	1,684	0	0	0	0	0	0	0	0	0	0	0	0		
18	Potential New Expenditures:														
19	0	0	0	0	0	0	0	0	0	0	0	0	0		
20	1,684	0	0	0	0	0	0	0	0	0	1,437	0	0		
21	1,684	0	0	0	0	0	0	0	0	0	1,437	0	0		
22	1,884	1,807	1,736	1,671	1,613	1,562	1,519	1,485	1,459	1,443	0	0	0		

Table 5

Status Quo Cash Flow
Upper San Diego River Redevelopment Project
San Diego County Redevelopment Agency
(000's Omitted)

Plan Year:																	TI Receipt Limit				6% NPV							
2032-33																	43	44	45	46	47	48	49	50	2039-40		TOTAL	TOTAL
1 Available Fund Balance																	0	0	0	0	0	0	0	0	0	0	842	
Resources:																												
2 Net Tax Increment																	1,343	1,343	1,343	1,343	1,343	1,343	1,343	1,343	1,343	0	50,053	20,209
3 Housing Set Aside																	336	336	336	336	336	336	336	336	336	0	16,116	6,610
4 Fund Interest Earnings at 4%																	0	0	0	0	0	0	0	0	0	0	1,239	568
5 Reserve Interest Earnings at 4%																	54	54	54	54	54	54	54	54	54	0	1,439	504
6 Total Annual Resources																	1,732	1,732	1,732	1,732	1,732	1,732	1,732	1,732	1,732	0	68,847	27,892
Expenditures:																												
7 Future TA Bond Debt Service																	1,343	1,343	1,343	1,343	1,343	1,343	1,343	1,343	1,343	0	35,964	12,611
8 Low & Moderate Income Housing																	336	336	336	336	336	336	336	336	336	0	16,116	6,610
9 Administration (2% annual growth)																	54	54	54	54	54	54	54	54	54	0	14,486	6,766
10 Other Charges																	0	0	0	0	0	0	0	0	0	0	497	455
11 Total Annual Expenditures																	1,732	1,732	1,732	1,732	1,732	1,732	1,732	1,732	1,732	0	67,063	26,442
12 Cash Balance Remaining																	0	0	0	0	0	0	0	0	0	0		
Potential New Resources:																												
13 Net Bond Proceeds - Future																	0	0	0	0	0	0	0	0	0	0	15,701	11,260
14 Total New Resources																	0	0	0	0	0	0	0	0	0	0	15,701	11,260
Potential New Expenditures:																												
15 Co GF Loan Repayment (100% of Net)																	0	0	0	0	0	0	0	0	0	0	1,190	1,076
16 Discretionary Projects (bond proceeds)																	0	0	0	0	0	0	0	0	0	0	17,138	11,615
17 Total New Expenditures																	0	0	0	0	0	0	0	0	0	0	18,327	12,691
18 Ending Balance																	0	0	0	0	0	0	0	0	0	0		

VIII. Recommendations

The Redevelopment Agency is faced with the option to terminate the Redevelopment Plan or commit to a plan to implement the desired goals and objectives that can be funded from tax increment resources of the Project Area. Should the Redevelopment Agency choose to the latter option, then the following recommendations should be considered:

1. Eliminate the Debt Incurrence Time Limit (SB 211)

The Redevelopment Agency should amend the Redevelopment Plan to eliminate the debt incurrence time limit by summary ordinance action. Adoption of the summary ordinance occurs prior to the July 18, 2009 time limit. Once amended, a portion of annual tax increment revenue would be subject to the statutory pass-through provisions of the Redevelopment Law.

2. Extend the Plan Time Limits (SB 1045 and SB 1096)

The Redevelopment Agency should amend the Redevelopment Plan to extend the Plan's effectiveness time limit and the time limit to receive tax increment revenues to repay debt, as allowed under the subject legislation, by summary ordinance.

3. Request a Reduction in Base Year Value (Malaki Adjustment)

The Redevelopment Agency should petition the County Auditor-Controller and County Assessor to request that the Project Area base year value be adjusted to exclude specific parcels acquired by tax-exempt public entities for permanent public uses.

4. Commit to Project Area Staffing

The Redevelopment Agency should commit to a plan of staffing the Project Area with a full time project manager and a team of support staff. As noted in the draft Implementation Plan, administration and management oversight of the Project Area has lacked a level of staff continuity necessary to ensure that the implementation of the proposed programs and activities are accomplished.

5. Establish Program Priorities

The Redevelopment Agency should prioritize the proposed programs that should be implemented for the Project Area over the next three to five years. The draft Implementation Plan contains an ambitious listing of proposed programs that could help to accomplish the goals and objectives of the Redevelopment Plan.

6. Amend the Draft Implementation Plan

The Redevelopment Agency should amend the draft Implementation Plan, as necessary, to properly reflect program priorities to be implemented in the Project Area.

7. Adjust the Project Area Budget

The Redevelopment Agency has proposed a FY 2006-07 budget that represents a minimal funding level until such time that a decision is made regarding the continuation of the Project Area. If the Project Area is to continue, then the operating budget must be increased to sufficiently provide staffing and services necessary to implement the projects, programs and activities reflected in the draft Implementation Plan.

8. Incur New Indebtedness

The Redevelopment Agency should commence establishing indebtedness secured by tax increment revenues of the Project Area. The current tax increment revenue capacity is sufficient to support a tax allocation bond issue. Unless the Redevelopment Agency adopts a summary ordinance to eliminate the debt incurrence time limit, any new indebtedness must be incurred prior to the July 18, 2009 time limit.

9. Identify New Indebtedness in the Statement of Indebtedness

The Redevelopment Agency should be prepared to submit a Statement of Indebtedness that reflects all new indebtedness and obligations of the Project Area in aggregate amounts large enough to ensure receipt of all future allocations of tax increment revenues generated by the Project Area.

PART 2 – REVIEW OF MARKET OPPORTUNITIES IN THE PROJECT AREA

I. Introduction

This analysis has been prepared so that the Agency may evaluate the potential market opportunities, assess the level of demand in the marketplace, and estimate the likely absorption schedule based on current and forecasted market conditions within the Project Area. The principal conclusions of KMA's evaluation are summarized below:

- **Retail:** New retail development in the Project Area is unlikely due to site requirements such as density, adjacency to anchor tenants, freeway visibility, and the new Transportation Impact Fee (TIF).
- **Office:** New office development is also unlikely due to lack of recognition of the area as an office node and lack of amenities and visibility.
- **Industrial:** Strong demand and availability of industrial land make industrial development the most viable land use for the Project Area. Development is already occurring on key development sites.
- **Residential:** Slowing housing market and impact of TIF may delay development of new residential in this area.
- The new TIF is not a material impact for industrial and residential, but this fee has a major impact for commercial uses.

II. Existing Site Conditions

The Project Area is largely comprised of vacant industrial land and land designated for the preservation of the San Diego River Channel. The area contains several active industrial businesses, single-family residential homes, mobile homes, a religious congregational facility, and an elementary school.

The western half of the Project Area consists mainly of the former sand and gravel operations owned by the Lakeside Land Company. Lakeside Land Company is planning to develop 1.4 million square feet of industrial space on their site over the next 10 years. Three industrial buildings have recently been developed along Riverford Road. River Run East, an industrial business park, is currently under construction. Upon completion, the development will contain approximately 150,000 square feet of flex industrial space. Further west on the north side of Mast Boulevard, is a housing subdivision built in the early 2000's. In addition there are two large vacant parcels. One parcel contains approximately 35 acres, is zoned as residential, and owned by the Lakeside Investment Co. LP. The other parcel is five acres, zoned for agricultural uses, and is currently used as an egg farm. On the south side of Mast Boulevard, is vacant industrial acreage owned mostly by the Lakeside Land Co. There is a 15-acre parcel on the north side of the river channel owned by the Lakeside Sanitation District that is currently planned to be a park by the County of San Diego.

The Eastern half of the Project Area consists mainly of acreage for the San Diego River Channel and older industrial businesses. Within the midst of the industrial uses, on Maplevue Street, sits the Elm Gardens, a 59-unit mobile home park.

According to the Agency, the area encompasses a total of approximately 532 acres. Exhibit 1, following, illustrates the distribution of land uses within 492 acres within the Project Area. It should be noted that MetroScan (source of information) does not provide land square footage for parcels containing less than 0.50 acres, therefore, the total acreage differs from the actual size of the Project Area.

EXHIBIT 1: SUMMARY OF LAND USES WITHIN PROJECT AREA, FY 2005-2006 (1)

Public-Owned and Tax-Exempt Properties	157.8 Acres	32.1%
Industrial Properties	264.2 Acres	53.7%
Commercial Properties	8.4 Acres	1.7%
Residential Properties	<u>61.5</u> Acres	<u>12.5%</u>
Total Project Area	491.9 Acres	100.0%

(1) Based on data provided by MetroScan.

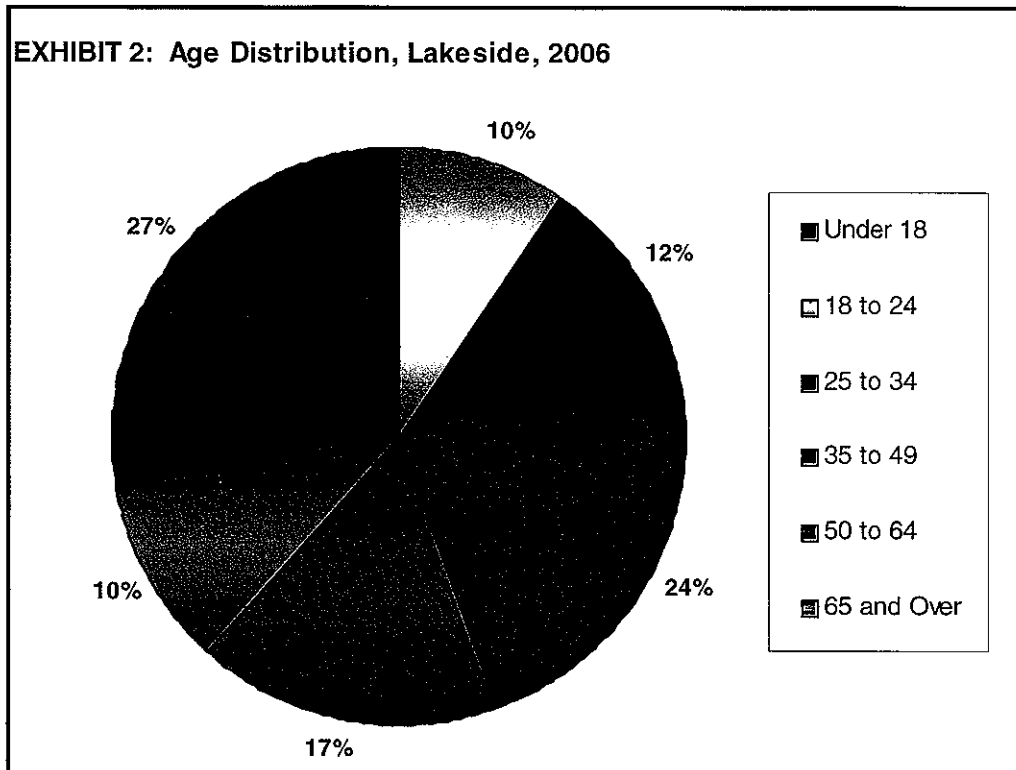
III. Market Assessment

A. Demographic Factors

KMA studied demographic characteristics of residents within the Lakeside community and a 5-mile trade area (intersection of Riverford Road and Highway 67). These demographics were compiled and compared to those of the County. The following information is contained within Tables 6 and 7 of this Report. The following presents the key demographic factors of the analysis:

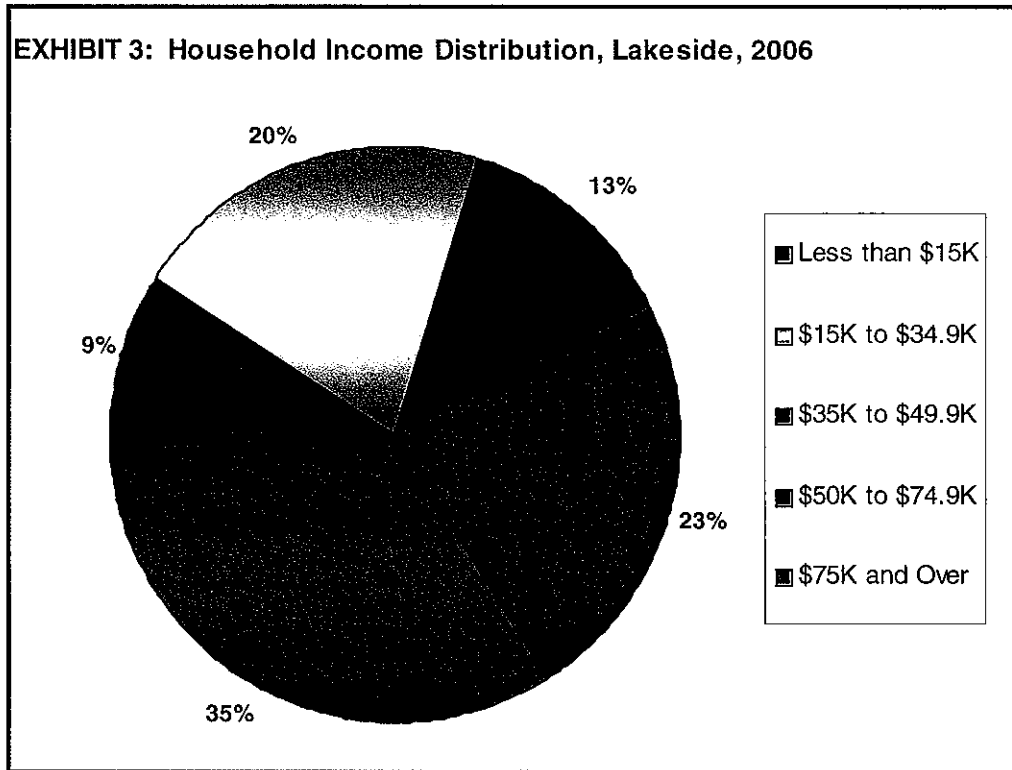
- In 2006, total population in Lakeside is approximately 19,500, a 0.04% decrease from 2000. The 5-mile trade area contained a population of 203,000, with a similar decrease since 2000 (0.03%). By comparison, the County yielded an increase of 1.06%.
- The forecast of average annual population in the Community is projected to be 0.51%, compared to 1.21% for the County. The 5-mile area is projected to grow at a slightly slower rate (0.36%) than Lakeside.
- In 2006, average household size in Lakeside was 2.83 persons per household. The 5-mile area and County contain slightly smaller households of 2.75 and 2.78, respectively.
- The Community in general is older than both the 5-mile area and the County. The median age in the community is 35.8, the 5-mile area and the County mirror each other with a median of 34.
- Exhibit 2, below, illustrates the distribution of age within Lakeside. As previously mentioned, the area is, on average, older than the 5-mile area and County.

EXHIBIT 2: Age Distribution, Lakeside, 2006



- Per Capita Income in 2006 was \$24,400 in Lakeside, which is higher than the 5-mile trade area (\$22,300), but still lower than the County (\$27,900).
- Median household incomes in Lakeside seem to have surpassed those of the 5-mile area and County. Lakeside contained a median household income of \$57,800, while the 5-mile area contained \$50,800 and the County \$56,000.
- With the higher median household incomes in Lakeside, it is not surprising that nearly 57% of households within the area have incomes above \$50,000 and approximately 34% have incomes above \$75,000. Within the 5-mile trade area, over 50% of households have incomes above \$50,000 and nearly 29% have incomes above \$75,000. For the County, approximately 55% of households have incomes above \$50,000 with approximately 35% having incomes above \$75,000. Exhibit 3, following, presents the distribution of median household income in Lakeside.

EXHIBIT 3: Household Income Distribution, Lakeside, 2006



- In 2006, the Community contained a higher Caucasian population (89%) than both the 5-mile area (79%) and County (64%), followed by the Other category with 9%. Persons in the Other category include the categories of Native Hawaiian or other Pacific Islander, American Indian, Native Alaskan, other races, and persons of two or more races.
- Hispanic ethnicity within the Community is less than half the distribution within the County. Lakeside contains approximately 9% Hispanics in the area, while the 5-mile area contains roughly 15%, the County contains nearly 21%. Race and Hispanic origin are treated separately by the Federal government, individuals of Hispanic ethnicity are intermixed within the various racial categories.

B. Retail Market Factors

KMA surveyed the Project Area and believes there are very few desirable sites for retail. Existing inventory of retail within the Project Area consists of two 7-11 convenience stores and one liquor store. Major retailers surveyed by KMA typically require at least two or more of the following:

- Freeway visibility
- Location near anchored shopping center

- High traffic counts
- Large daytime population
- Density
- Zoning restrictions

Industrial uses typically yield low density population and as such do not attract retailers. Exceptions to these requirements include, but are not limited to, fast food restaurants, “mom and pop” stores and restaurants, and gas/mini-mart service stations. The northwest corner of Riverford Road and Riverside Drive may be a candidate for these types of retail development.

C. Office Market Factors

Office development within the Project Area would be unlikely due to several market factors, such as:

- Zoning restrictions
- Lack of recognition as an established office node
- Strong competition from nearby Ryan office development in Santee
- Lack of amenities
- Visibility

Table 8 illustrates the historical trend of office inventory and vacancy in East County and compared to the County. Total office inventory in East County has grown at an average annual rate of 1.8%, as compared to the County with 3.7%. The East County submarket historically has captured an insignificant amount of office space within the County, on average 2.2% since 2001.

Currently, there is only one significant contribution to the office inventory in East County. The RiverView project in Santee, developed by the Ryan Companies, will contain nearly 1.9 million square feet of office space and will likely meet any future office demand for the East County. The project is adjacent to Santee Town Square and the new Santee Trolley Square shopping center with 450,000 square feet of retail and restaurants. It is also the location of the San Diego Trolley linking Santee to downtown San Diego and other parts of the region.

D. Industrial Market Factors

San Diego County has continued to experience a healthy industrial market. San Diego County industrial vacancy rates continue to decline, driven by healthy supply and demand balance in both sectors, says a new report by CB Richard Ellis. Table 9 depicts the historical trend of industrial inventory and vacancy in San Diego County and East County. This strong

performance is reflected in San Diego's strong employment figures. As of March 2006, the San Diego unemployment figure is low at 3.9% compared to national unemployment at 4.8%.

The current industrial vacancy rate of 5.3% is down more than one percentage point over 2001. Grubb & Ellis estimates that 3.5 million square feet of new industrial space is currently under construction, with 2.4 million square feet being absorbed in the second quarter of 2006.

East County ranks as the smallest industrial region in the greater San Diego area with more than 12 million square feet of space, but it has the lowest vacancy factor at 3.2% compared to 5.4% for San Diego County overall. When this is coupled with the area's affordability compared to other more expensive submarkets, it becomes evident that this area will most likely see an increase in building and leasing activity over the next few years.

Table 10 represents sales of comparable industrial buildings within a 5-mile radius since January 2005. The sales ranged from \$82 to \$432 per building SF. Available cap rates for the industrial building sales yield a median of 5.4%.

Prospects for build-out of industrial uses in the subject area are strengthened by an impending shortage of developable land in the major submarkets in San Diego County. The landowner of the largest developable industrial site in the Project Area has already begun development of a potential 1.4 million square feet of industrial space. As shown on Table 11, Lakeside Land Co has already completed approximately 209,000 square feet of the projected 1.4 million square feet and is underway on completing another 150,000 square feet by the end of the year. According to the Developer and news reports, final plans and approvals for the 1,050,000 square feet balance of the site are about another year away. The Developer estimates that project build-out will be in approximately 5 to 10 years. At an estimated absorption period of 10 years, KMA is estimating an annual absorption of 104,000 square feet per year.

E. Residential Market Factors

Recent reports by the San Diego Association of Realtors indicate housing activity has clearly made a significant slowdown from the previous year. In San Diego County, the association said median prices last month for home listings were down nearly 5% on existing condos and down nearly 1% on existing houses. The figures paralleled the broader-based DataQuick Information Systems report showing the first year-over-year decline in overall prices in San Diego housing in a decade. According to the reports, homes are taking longer to sell and builders are being more aggressive in using promotions to sell their existing inventory of homes.

According to MarketPointe Realty Advisors, in the first quarter of 2006, there were 150 actively-selling detached housing developments within the San Diego County. These housing units are selling at an average price of \$904,000 per unit, or \$287 per square foot. Approximately 6% of

this inventory is captured within the East County submarket. The nine developments in East County contain homes with an average selling price of \$682,000, or \$276 per square foot. Exhibit 4 below illustrates the ranking of submarkets within the County.

EXHIBIT 4: Overview of Active Residential New Detached Home Sales, 1st Quarter 2006					
Geography	Total # Projects	Total # Units	Averages		
			Sales Price	SF	\$/SF
Interstate 15 Corridor	6	503	\$1,263,427	4,499	\$281
North County Coastal	42	3,115	\$1,036,782	3,323	\$312
Highway 56 Corridor	18	1,419	\$899,215	2,868	\$314
South County	18	1,763	\$861,525	2,902	\$297
Highway 78 Corridor	55	3,312	\$755,774	3,170	\$238
East County	9	756	\$682,278	2,469	\$276
San Diego Central	<u>2</u>	<u>14</u>	<u>\$497,129</u>	<u>1,538</u>	<u>\$323</u>
Overall San Diego County	150	10,882	\$904,176	3,149	\$287

Source: MarketPointe Realty Advisors

With respect to attached units, there are 237 actively-selling developments. The average attached unit in the County sold for approximately \$431,000, or \$413 per square foot. Of these developments, approximately 11% of the units will be captured within the East County submarket. East County contains 26 developments with nearly 2,200 units selling for an average of \$315,000, or \$321 per square foot. It should be noted these include apartment to condominium conversions.

EXHIBIT 5: Overview of Active Residential New Attached Home Sales, 1st Quarter 2006					
Geography	Total # Projects	Total # Units	Averages		
			Sales Price	SF	\$/SF
San Diego Central	123	9,275	\$524,459	977	\$537
Highway 56 Corridor	5	801	\$471,482	1,378	\$342
South County	30	3,593	\$411,013	1,271	\$323
North County Coastal	17	3,726	\$399,698	958	\$417
Highway 78 Corridor	30	2,940	\$387,803	1,196	\$324
East County	26	2,184	\$314,934	980	\$321
Interstate 15 Corridor	<u>6</u>	<u>1,500</u>	<u>\$310,828</u>	<u>866</u>	<u>\$359</u>
Overall San Diego County	237	24,019	\$430,719	1,043	\$413

Source: MarketPointe Realty Advisors

Tables 12 and 13 present detailed information on individual developments within the East County submarket. Residentially-zoned land within the Project Area accounts for 12.5%. The built residential is comprised generally of two types: newer single-family homes in the western portion of the Project Area and older mobile homes in the eastern portion. The residential that is located west of Riverford Road abuts an egg farm. Directly adjacent to the egg farm (to the west) is an approximately 36-acre vacant site zoned for single-family residential uses. Its location and proximity to the existing single-family homes make this a key site for single-family residential homes. However, the adjacent egg farm may discourage a developer from building and future homeowners from purchasing homes within this area.

F. Impact of Transportation Impact Fee (TIF)

The County of San Diego adopted a new TIF on April 23, 2005. In December 2005, the County revised how the fees would be calculated. The basis for the calculation changed from a development's per square footage charge to a fee based on an estimate of how many car trips each development would generate. Opponents of the new fee believe that the new TIF is excessive and will halt all new commercial and industrial developments in the unincorporated areas.

For industrial development, KMA believes that the fee will have no immediate impact. For an industrial development, assuming a 10,000 square feet industrial park development with no commercial, the number of trips would be 8/1,000 square feet or 80 trips total per SANDAG. This projected use would receive a 12% pass-by credit, which results in a net trip total of 70. The trip rate for Lakeside is \$542/trip. This would result in a TIF of \$37,940 or \$3.79 per square foot. As described above, the industrial market has remained extremely strong despite factors that have caused even higher cost impacts such as rising interest rates, and especially higher construction costs due to inflation.

For other commercial uses, the TIF would have a much harder impact. For a 10,000 square feet drug store, for example, the number of trips generated according to SANDAG, would be 90 trips/1,000 square feet or a total of 900 trips. This retail use would receive a 10% pass-by-credit resulting in a net trip total of 810 trips. At \$542 per trip, the TIF would total \$439,020 without any credits or reductions. At \$43.90 per square foot, this would be a major obstacle for any retail development occurring in a non-retail oriented area, like Lakeside.

For a standard commercial office use at 10,000 square feet, the number of trips generated according to SANDAG would be 20 trips/1,000 square feet or a total of 200 trips. This retail use would receive a 13% pass-by-credit resulting in a net trip total of 174 trips. At \$542 per trip, the TIF would total \$94,308 without any credits or reductions. At \$9.43 per square foot, this would

also be a major obstacle for office development to occur in an untested market area, like Lakeside.

For residential development in Lakeside, the TIF for a single-family detached residential development would total \$4,878 per dwelling unit. Depending on the project, this could be a minor or major cost depending on the traffic studies that were required prior to the new TIF. In a fast appreciating market, this would be a very minor impact. Recent economic indicators though have shown that the market is clearly slowing for residential and this TIF may have an impact for future residential developments.

IV. Limiting Conditions

1. The analysis contained in this document is based, in part, on data from secondary sources such as state and local government, planning agencies, real estate brokers, and other third parties. While KMA believes that these sources are reliable, we cannot guarantee their accuracy.
2. The analysis assumes that neither the local nor national economy will experience a major recession. If an unforeseen change occurs in the economy, the conclusions contained herein may no longer be valid.
3. The findings are based on economic rather than political considerations. Therefore, they should be construed neither as a representation nor opinion that government approvals for development can be secured.
4. Market feasibility is not equivalent to financial feasibility; other factors apart from the level of demand for a land use are of crucial importance in determining feasibility. These factors include the cost of acquiring sites, relocation burdens, traffic impacts, remediation of toxics (if any), and mitigation measures required through the approval process.
5. Development opportunities are assumed to be achievable during the specified time frame. A change in development schedule requires that the conclusions contained herein be reviewed for validity.
6. The analysis, opinions, recommendations and conclusions of this document are KMA's informed judgment based on market and economic conditions as of the date of this Report. Due to the volatility of market conditions and complex dynamics influencing the economic conditions of the building and development industry, conclusions and recommended actions contained herein should not be relied upon as sole input for final business decisions regarding current and future development and planning.

TABLE 6

COMPARATIVE OVERVIEW OF POPULATION AND HOUSEHOLDS, 2006
MARKET ASSESSMENT OF UPPER SAN DIEGO RIVER IMPROVEMENT PROJECT AREA
SAN DIEGO COUNTY

	<u>Lakeside Community</u>	<u>5-Mile Ring (1)</u>	<u>San Diego County</u>
Population	19,513	202,792	2,996,862
Historical Population Growth, 2000-2006 <i>Average Annual Rate</i>	-0.04%	-0.03%	1.06%
Forecasted Population Growth, 2006-2011 <i>Average Annual Rate</i>	0.51%	0.36%	1.21%
Average Household Size	2.83	2.78	2.75
Median Age (Years)	35.8	34.4	34.3
Per Capita Income (PCI)	\$24,376	\$22,254	\$26,918
Aggregate Personal Income	\$0.48 Billion	\$4.51 Billion	\$80.67 Billion
Median Household Income	\$57,758	\$50,806	\$55,945
Households Over \$50,000	57.2%	50.7%	54.6%

(1) Of the intersection of Riverford Road and Highway 67.

Source: Claritas, Inc.

Prepared by: Keyser Marston Associates, Inc.

Filename: TemeculaUSDRIP market and absorption analysis\11/2/2006; ema

TABLE 7

COMPARATIVE OVERVIEW OF DEMOGRAPHIC CHARACTERISTICS, 2006
MARKET ASSESSMENT OF UPPER SAN DIEGO RIVER IMPROVEMENT PROJECT AREA
SAN DIEGO COUNTY

Demographic Characteristics	Lakeside Community	5-Mile Radius (1)	San Diego County
I. <u>Household Income Distribution</u>			
Less than \$15K	9.2%	10.8%	10.2%
\$15K to \$34.9K	20.4%	22.2%	20.2%
\$35K to \$49.9K	13.2%	16.3%	15.0%
\$50K to \$74.9K	23.2%	21.4%	19.4%
\$75K and Over	<u>34.0%</u>	<u>29.3%</u>	<u>35.2%</u>
Total	100.0%	100.0%	100.0%
II. <u>Age Distribution</u>			
Under 18	27.7%	27.5%	25.7%
18 to 24	9.5%	9.7%	10.4%
25 to 34	11.5%	13.7%	14.9%
35 to 49	23.6%	22.9%	22.4%
50 to 64	17.2%	15.8%	15.5%
65 and Over	<u>10.5%</u>	<u>10.5%</u>	<u>11.1%</u>
Total	100.0%	100.0%	100.0%
III. <u>Race/Ethnicity</u>			
Caucasian	89.1%	78.7%	64.2%
Asian	1.3%	2.5%	9.9%
African American	0.7%	3.6%	5.1%
Other (2)	<u>8.9%</u>	<u>15.3%</u>	<u>20.8%</u>
Total	100.0%	100.0%	100.0%
Hispanic (3)	12.4%	19.1%	29.6%

(1) Of the intersection of Riverford Road and Highway 67.

(2) Includes the categories Native Hawaiian or other Pacific Islander, American Indian, Alaska Native, other races, and persons of two or more races.

(3) Race and Hispanic origin are treated separately by the Federal government. Individuals of Hispanic origin are counted among various races.

Source: Claritas, Inc.

Prepared by: Keyser Marston Associates, Inc.

Filename: USDRIP market and absorption analysis\11/2/2006; ema

TABLE 8

**OFFICE INVENTORY: OWNER-USER AND LEASABLE SPACE, 2000-2006 ⁽¹⁾
MARKET ASSESSMENT OF UPPER SAN DIEGO RIVER IMPROVEMENT PROJECT AREA
SAN DIEGO COUNTY**

	2000	2001	2002	2003	2004	2005	2006 ⁽²⁾	Percent Change	Average Annual Change
I. Owner-User Inventory									
East County Submarket	179,042	179,042	179,042	179,042	193,688	232,567	232,567	29.9%	4.5%
% of County	1.6%	1.6%	1.6%	1.6%	1.7%	1.9%	1.9%	16.2%	2.5%
San Diego County	11,005,533	11,207,570	10,983,015	10,954,917	11,529,643	11,960,739	12,301,570	11.8%	1.9%
II. Leaseable Inventory									
East County Submarket	1,223,484	1,223,484	1,319,157	1,338,484	1,302,559	1,311,557	1,324,117	8.2%	1.3%
% of County	2.5%	2.3%	2.4%	2.4%	2.2%	2.1%	2.1%	-15.0%	-2.7%
San Diego County	48,919,259	53,259,598	55,545,079	56,951,164	59,487,442	61,677,651	62,304,426	27.4%	4.1%
III. Total Inventory									
East County Submarket	1,402,526	1,402,526	1,498,199	1,517,526	1,496,247	1,544,124	1,556,684	11.0%	1.8%
% of County	2.3%	2.2%	2.3%	2.2%	2.1%	2.1%	2.1%	-10.8%	-1.9%
San Diego County	59,924,792	64,467,168	66,528,094	67,906,081	71,017,085	73,638,390	74,605,996	24.5%	3.7%

(1) Survey includes the Lakeside Community, East County submarket, and San Diego County.
(2) Through 2nd quarter 2006.

Source: John Burnham Company
Prepared by: Keyser Marston Associates, Inc.
Filename: USDRIP market and absorption analysis11/2/2006

TABLE 9

**INDUSTRIAL INVENTORY: OWNER-USER AND LEASABLE SPACE, 2000-2006⁽¹⁾
MARKET ASSESSMENT OF UPPER SAN DIEGO RIVER IMPROVEMENT PROJECT AREA
SAN DIEGO COUNTY**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u> (2)	<u>Percent Change</u>	<u>Average Annual Change</u>
I. Owner-User Inventory									
East County Submarket	1,424,854	1,424,854	1,424,854	1,395,484	1,175,186	1,175,186	1,175,186	-17.5%	-3.2%
% of County	4.2%	4.1%	4.2%	3.9%	3.8%	3.8%	3.8%	-9.3%	-1.6%
Lakeside	-	-	-	-	76,050	76,050	76,050	N/A	N/A
% of Submarket	-	-	-	-	6.5%	6.5%	6.5%		
San Diego County	33,796,400	34,521,052	33,758,683	35,499,085	30,734,408	30,663,678	30,740,263	-9.0%	-1.6%
II. Leaseable Inventory									
East County Submarket	5,421,814	5,504,184	5,583,228	5,852,040	6,856,292	6,858,792	6,852,654	26.4%	4.0%
% of County	8.7%	8.6%	8.4%	8.6%	9.0%	9.0%	9.0%	3.3%	0.5%
Lakeside	-	-	-	-	207,800	207,800	207,800	N/A	N/A
% of Submarket	-	-	-	-	3.0%	3.0%	3.0%		
San Diego County	62,452,599	63,660,583	66,289,221	67,952,435	75,988,273	76,227,915	76,435,936	22.4%	3.4%
III. Total Inventory									
East County Submarket	6,846,668	6,929,038	7,008,082	7,247,524	8,031,478	8,033,978	8,027,840	17.3%	2.7%
% of County	7.1%	7.1%	7.0%	7.0%	7.5%	7.5%	7.5%	5.3%	0.9%
Lakeside	-	-	-	-	283,850	283,850	283,850	N/A	N/A
% of Submarket	-	-	-	-	3.5%	3.5%	3.5%		
San Diego County	96,248,999	98,181,635	100,047,904	103,451,520	106,722,681	106,891,593	107,176,199	11.4%	1.8%

(1) Survey includes the Lakeside Community, East County submarket, and San Diego County.

(2) Through 2nd quarter 2006.

Source: John Burnham Company

Prepared by: Keyser Marston Associates, Inc.

Filename: USDRIIP market and absorption analysis\11/2/2006

TABLE 10

**INDUSTRIAL BUILDING SALES, JANUARY 2005 TO PRESENT (1)
MARKET ASSESSMENT OF UPPER SAN DIEGO RIVER IMPROVEMENT PROJECT AREA
SAN DIEGO COUNTY**

Sale Date	Property Address	City	Sales Price	Acres	Building		Cap Rate	Year Built	Zoning	Property Description
					SF	\$/SF				
8/2/2006	1250 N Marshall Ave	El Cajon	\$11,500,000	5.40	123,060	\$93		1979	MM09, El Cajon	Multi-Tenant Industrial Building
7/19/2006	8625 Argent St	Santee	\$1,550,000	0.53	7,200	\$215		1988	IL, Santee	Single Tenant Industrial Building
7/3/2006	9335 Stevens Rd	Santee	\$2,200,000	0.91	14,821	\$148		1971	IL, Santee	Single Tenant Industrial Building
6/14/2006	9330 Stevens Rd	Santee	\$2,150,000	0.58	11,660	\$184		1987	M, Santee	Multi-Tenant Industrial Building
5/31/2006	1604-26 N Magnolia Ave	El Cajon	\$6,600,000	2.71	48,847	\$135	5.7%	1979	M54, County	Multi-Tenant Industrial Building
5/24/2006	150-152 Millar Ave	El Cajon	\$737,500	0.19	2,950	\$250			C-M, El Cajon	Single Tenant Industrial Building
5/11/2006	8614 Siesta Rd	Santee	\$1,015,000	0.53	2,400	\$423			IL, Santee	Single Tenant Industrial Building
4/28/2006	12142 Industry Rd	Lakeside	\$2,172,000	5.79	20,000	\$109			M54, Lakeside	Single Tenant Industrial Building
4/19/2006	9411 Bond Ave Bldg 8	El Cajon	\$1,996,170	0.85	11,705	\$171		2006	M52, El Cajon	Single Tenant Industrial Building
4/12/2006	9423 Bond Ave Bldg 7	El Cajon	\$1,705,000	N/A	9,995	\$171		2006	M52, El Cajon	Multi-Tenant Industrial Building
3/27/2006	8745-8747 N Magnolia Ave	Santee	\$4,557,500	2.12	34,540	\$132		1973	IL, Santee	Industrial Condominium
3/7/2006	1451 N Johnson Ave	El Cajon	\$4,805,000	2.00	57,484	\$84		1964	M GN9, El Cajon	Multi-Tenant Industrial Building
2/28/2006	9920-9938 Prospect Ave	Santee	\$8,154,562	4.80	74,506	\$109	5.1%	1988	IL, Santee	Single Tenant Industrial Building
2/28/2006	1277 N Cuyamaca St	El Cajon	\$12,194,437	7.28	109,860	\$111	5.0%	1979	MM09, El Cajon	Multi-Tenant Industrial Building
2/6/2006	1850 Gillespie Way	El Cajon	\$2,600,000	1.30	20,743	\$125	7.5%	2000	M, El Cajon	Single Tenant Industrial Building
1/12/2006	8526 Bracs Dr	Santee	\$500,000	0.15	6,000	\$83			IG, Santee	Single Tenant Industrial Building
12/22/2005	10051 Prospect Ave	Santee	\$2,100,000	0.99	4,856	\$432		1960	M52, Santee	Single Tenant Industrial Building
12/22/2005	1192 Pioneer Way	El Cajon	\$8,275,000	4.56	44,826	\$185	6.0%	1974	IL-3-1, San Diego	Single Tenant Industrial Building
9/14/2005	210 Cypress Ln	El Cajon	\$1,300,000	0.88	3,375	\$385		1951	M54, County	Single Tenant Industrial Building
8/30/2005	9489-9493 Mission Park Pl	Santee	\$2,100,000	0.92	20,140	\$104		1963	IG, Santee	Single Tenant Industrial Building
7/26/2005	10115 Mission Gorge Rd	Santee	\$10,456,000	3.11	57,760	\$181		1975	GC, Santee	Self Storage Facility
6/10/2005	681 Kenney St	El Cajon	\$5,000,000	8.04	51,970	\$96			M, El Cajon	Airplane Hangar
5/17/2005	8665 Argent St	Santee	\$2,600,000	1.18	20,550	\$127		1988	IG, Santee	Multi-Tenant Industrial Building
5/4/2005	1604-1626 N Magnolia Ave	El Cajon	\$5,100,000	2.71	48,847	\$104	5.0%	1979	M54, El Cajon	Multi-Tenant Industrial Building
4/29/2005	9545 Pathway St	Santee	\$2,131,000	0.75	15,839	\$135		1988	IL, Santee	Multi-Tenant Industrial Building
4/29/2005	531-555 Raleigh Ave	El Cajon	\$1,200,000	0.56	7,000	\$171			CM, El Cajon	Single Tenant Industrial Building
4/15/2005	1956 Joe Crosson Dr	El Cajon	\$429,000	1.68	3,600	\$119		1979	M, El Cajon	Airplane Hangar
4/1/2005	1900 Weld Blvd	El Cajon	\$13,500,000	10.14	163,714	\$82		1998	M, El Cajon	Single Tenant Industrial Building
3/4/2005	10009-10013 Prospect Ave	Santee	\$2,150,000	1.11	14,000	\$154			7, Santee	Multi-Tenant Industrial Building

(1) Survey represents a 5-mile radius from Riverford Road and Highway 67 intersection.

Source: CoStar Comps, Inc.

Prepared by: Keyser Marston Associates, Inc.

Filename: USDRIP market and absorption analysis11/2/2006; ema

TABLE 10

**INDUSTRIAL BUILDING SALES, JANUARY 2005 TO PRESENT ⁽¹⁾
MARKET ASSESSMENT OF UPPER SAN DIEGO RIVER IMPROVEMENT PROJECT AREA
SAN DIEGO COUNTY**

<u>Sale Date</u>	<u>Property Address</u>	<u>City</u>	<u>Sales Price</u>	<u>Acres</u>	<u>Building</u>		<u>Cap Rate</u>	<u>Year Built</u>	<u>Zoning</u>	<u>Property Description</u>
					<u>SF</u>	<u>\$/SF</u>				
2/17/2005	9323 Stevens Rd	Santee	\$1,586,500	0.80	13,200	\$120		1986	IL, Santee	Multi-Tenant Industrial Building
1/26/2005	8745-8747 N Magnolia Ave	Santee	\$3,454,000	2.20	34,540	\$100		1998	M, Santee	Multi-Tenant Industrial Building
1/20/2005	1214 Pioneer Way	El Cajon	\$1,750,000	1.24	7,500	\$233		1998	M, El Cajon	Single Tenant Industrial Building
		Minimum	\$429,000	0.15	2,400	\$82	5.0%	1951		
		Maximum	\$13,500,000	10.14	163,714	\$432	7.5%	2006		
		Median	\$2,161,000	1.24	17,920	\$133	5.4%	1979		
		Average	\$3,986,521	2.45	33,359	\$165	5.7%	1982		

(1) Survey represents a 5-mile radius from Riverford Road and Highway 67 intersection.

Source: CoStar Comps, Inc.

Prepared by: Keyser Marston Associates, Inc.

Filename: USDRIP market and absorption analysis\11/2/2006; ema

TABLE 11

**ESTIMATE OF ANNUAL ABSORPTION OF INDUSTRIAL SPACE
MARKET ASSESSMENT OF UPPER SAN DIEGO RIVER IMPROVEMENT PROJECT AREA
SAN DIEGO COUNTY**

I. Total Estimated SF at Build-Out (1)		1,400,000 SF
II. (Less) River Run West Development		
Southland Envelope Company	2001	(79,662) SF
Turning Point of God	2004	(65,870) SF
Lakeside Land Company	2004	<u>(63,404) SF</u>
Subtotal		(208,936) SF
III. (Less) River Run East		
	2006/2007	<u>(150,000) SF</u>
Total New Construction SF		(358,936) SF
IV. Remaining for Build-Out		1,041,064 SF
V. Estimated Years of Build-Out (1)		10 Years
VI. Annual Absorption		104,106 SF/Year

(1) Based on calls with local brokers and internet research.

TABLE 12

ACTIVE RESIDENTIAL HOME SALES, DETACHED UNITS, EAST COUNTY ⁽¹⁾
 MARKET ASSESSMENT OF UPPER SAN DIEGO RIVER IMPROVEMENT PROJECT AREA
 SAN DIEGO COUNTY

<u>Development</u>	<u>City</u>	<u># Units</u>	<u>Sales Price Range</u>	<u>Unit SF Range</u>	<u>Price/SF Range</u>
Calle Corazon	El Cajon	16	\$474,900 - \$474,900	1,500 - 1,500	\$316.60 - \$316.60
Vista Este	Santee	33	\$480,000 - \$504,990	1,308 - 1,617	\$296.84 - \$389.07
Black Horse Estates	Santee	60	\$749,000 - \$893,000	2,510 - 3,095	\$287.76 - \$298.40
		Minimum	\$474,900 - \$474,900	1,308 - 1,500	\$287.76 - \$298.40
		Maximum	\$749,000 - \$893,000	2,510 - 3,095	\$316.60 - \$389.07
		Median	\$480,000 - \$504,990	1,500 - 1,617	\$296.84 - \$316.60
		Average	\$567,967 - \$624,297	1,773 - 2,071	\$300.40 - \$334.69

(1) As of 1st quarter 2006. Includes the cities of El Cajon, Lakeside, and Santee.

Source: MarketPointe Realty Advisors

Prepared by: Keyser Marston Associates, Inc.

Filename: USDRIP market and absorption analysis11/2/2006; ema

TABLE 13

**ACTIVE RESIDENTIAL HOME SALES, ATTACHED UNITS, EAST COUNTY (1)
MARKET ASSESSMENT OF UPPER SAN DIEGO RIVER IMPROVEMENT PROJECT AREA
SAN DIEGO COUNTY**

<u>Development</u>	<u>City</u>	<u>Type</u>	<u># Units</u>	<u>Sales Price Range</u>	<u>Unit SF Range</u>	<u>Price/SF Range</u>
Alder Woods	El Cajon	Conversion	148	\$219,900 - \$289,900	597 - 801	\$348.85 - \$368.34
Artesia	El Cajon	Conversion	178	\$209,900 - \$279,900	732 - 925	\$286.74 - \$302.59
Casa Bonita	El Cajon	Conversion	34	\$279,900 - \$279,900	1,100 - 1,100	\$254.45 - \$254.45
Cherry Creek	Lakeside	New construction	114	\$224,900 - \$329,900	728 - 1,093	\$301.82 - \$308.92
Cottage Villas	El Cajon	Conversion	14	\$199,000 - \$247,000	600 - 875	\$282.28 - \$331.66
La Quinta Gardens	El Cajon	Conversion	48	\$210,000 - \$270,000	660 - 840	\$318.18 - \$321.42
Maple Park Villas	El Cajon	Conversion	24	\$259,900 - \$339,900	900 - 1,000	\$288.77 - \$339.90
Mollison Villas	El Cajon	Conversion	20	\$253,900 - \$253,900	825 - 825	\$307.75 - \$307.75
Naranca Villas	El Cajon	Conversion	14	\$289,900 - \$289,900	800 - 800	\$362.37 - \$362.37
Ridgestone	El Cajon	Conversion	16	\$249,000 - \$249,000	800 - 800	\$311.25 - \$311.25
South Second Grove	El Cajon	Conversion	28	\$319,999 - \$319,999	1,200 - 1,200	\$266.66 - \$266.66
Stonemark on Avocado	El Cajon	Conversion	74	\$264,900 - \$264,900	840 - 840	\$315.35 - \$315.35
Sunridge Condos	El Cajon	Conversion	28	\$199,900 - \$267,900	600 - 825	\$321.37 - \$333.16
The Village Townhomes	El Cajon	Conversion	70	\$210,900 - \$289,900	660 - 920	\$315.10 - \$319.54
Treviso	Santee	New construction	186	\$389,900 - \$536,400	1,073 - 1,774	\$302.36 - \$363.37
Valley View	El Cajon	Conversion	24	\$199,900 - \$334,900	580 - 1,000	\$334.90 - \$344.65
Winterview Homes	Lakeside	New construction	34	\$459,900 - \$478,900	1,408 - 1,518	\$312.84 - \$326.63
		Minimum		\$199,000 - \$247,000	580 - 800	\$254.45 - \$254.45
		Maximum		\$459,900 - \$536,400	1,408 - 1,774	\$362.37 - \$368.34
		Median		\$249,000 - \$289,900	800 - 920	\$311.25 - \$321.42
		Average		\$261,276 - \$313,071	830 - 1,008	\$307.71 - \$322.24

(1) As of 1st quarter 2006. Includes the cities of El Cajon, Lakeside, and Santee.

Source: MarketPointe Realty Advisors

Prepared by: Keyser Marston Associates, Inc.

Filename: USDRIP market and absorption analysis11/2/2006; ema

PART 3 – IMPLEMENTATION STRATEGY AND PROJECT AREA MANAGEMENT

I. Introduction

The Project Area's Advisory Committee has indicated that they would like to have the County proceed with implementation of projects as outlined in the documents that were approved at the time of adoption of the Redevelopment Plan. If this is not possible, then the Project Area should probably be discontinued.

In addition to the infrastructure improvements outlined in the documents considered at the time of plan adoption, there are a number of development opportunities and recommendations for implementation of development that KMA would preliminarily suggest as detailed below. Prior to proceeding further with any implementation strategy, however, KMA recommends that an extensive discussion of options, opportunities, constraints and approaches be undertaken with community leaders and the Supervisor of the District.

II. Potential Development Opportunities and Directions

The following are potential development opportunities or activities that can be considered for the Project Area and funded, partially or totally, with tax increment generated in the Project Area.

1. Designing and budgeting for completion the list of improvements outlined in Exhibit C of the 1995 Amended Redevelopment Plan. An additional public improvement would be a new fire station to serve the Project Area and surrounding area.
2. Development of additional residential at the west end of the Project Area. Residential development will generate the need for additional street improvements. Potential impacts will require evaluation and if there are impacts, approaches for mitigating such impacts on the surrounding area will require review and input (ultimately approval) by the City of Santee, the County and the community. A meeting with the City of Santee is necessary to discuss the proposed development and potential impacts.
3. County planning, design and construction of the proposed park at the west end of the Project Area.
4. Reduction of negative development/sales impacts on existing and future residential development due to the egg farm at the west end of the Project Area. Mitigation measures could be as follows:
 - a. Discussions with the owner of the egg farm regarding the negative impact that this business and its appearance has on residential development in an attempt to encourage the owner to reduce the negative impact;
 - b. Screening or walls constructed around the existing egg farm. Screening could be in the form of a landscaped buffer purchased and improved by the Agency or trees planted to screen the farm. Such screening could be a project cost;
 - c. Acquisition of the egg farm property. If acquisition of the total property is undertaken, the site could be used for additional residential development. If acquisition of only a portion of the property is undertaken, the property purchased by the Agency could be developed in a manner to screen the farm from the residential; and
 - d. Moving the egg farm to another site at the cost of the Agency in order to offset the negative impact to residents.

5. Development of affordable housing with the assistance of the Agency on either a portion of the 36-acre site at the west end of the Project Area or on an alternate site in the Project Area.
6. Rehabilitation and modernization of the Elm Gardens mobile home park at the east end of the Project Area. This could be a costly project but could have a major positive impact on the area and provide affordable housing opportunities.
7. Other potential infrastructure improvements.

III. Consideration of Implementation Options

In the event that the County/Agency and the community decide to proceed with implementation of the project and with all or any of the proposed projects listed above, the following approach should be followed. The first step as the foundation for a business plan or implementation strategy would be to determine the cost, financing approaches and the scheduling and phasing of undertaking development. Then it will be important to have the community involved in the decision making process.

- Determine potential development activities to be pursued. In the event that this decision cannot be made without further information, an estimated budget and schedule should be established for each potential development activity under consideration. This additional information will assist the decision-making process.
- Estimate County staff time costs and consultant costs allocable to each project or development.
- Estimate all project costs, direct and indirect and any potential revenue sources.
- Establish a project schedule of activities and prioritize all activities.
- Regarding initial financing, a funding approach utilized by many redevelopment agencies is a loan or advance from the County's General Fund to the Agency. This type of loan should be documented in writing with an interest rate, term of repayment and other terms. This loan or advance can be repaid with tax increment or Tax Allocation Bond proceeds from the Project Area. This approach is the most direct and least time consuming approach for funding Agency activities.
- An alternate funding approach is to utilize the proceeds of a Tax Allocation Bond issue. This approach is more time consuming and less efficient financially.
- A very important step in this process is for the Agency to establish sufficient debt that can be documented and certified annually in order for the Agency to receive annual tax increment.
- Seek and maintain community support for various development and implementation activities.
- Proceed to inform the community advisory committee and the County of the proposed implementation course of action and secure County/Agency Board approval.

IV. Implementation

In the event that the community advisory committee and the County make the decision to proceed with the project, the County should follow steps outlined in the recommendations section of the KMA Report related to Project Area Financial Viability. KMA can provide advisory services to the Agency related to implementation if the decision is made to pursue implementation activities. Development sites can be identified and KMA can assist the County/Agency with the developer solicitation process similar to the process that has been followed for the Santee, Gillespie Field and County Operations Center/County Annex sites.

One of the implementation approaches suggested by the advisory committee is the creation by the County Board of Supervisors of a Non-Profit Development Corporation to plan, manage and implement development in the Project Area. Formation documents will be provided to the County and the advisory committee. This approach can be evaluated and discussed further as an alternative implementation approach.